V 23/2/985/86

Pell Grant

Validation Handbook

1985-86

U.S. Department of Education

Office of Student Financial Assistance

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1985-86 Student Aid Report
Federal Student Aid Programs
Part 2 - Information Review Form

OMB No. 1840-0132
Form Approved
Exp. 11-30-86

SAI:
Processed:

- Check each item carefully.
- Pay special attention to items in **boldface type**; they may need to be corrected.
- To correct an item, cross out the wrong answer and print the correct one in the column marked "The answer should be."
- Be sure to read the instructions in the lower left on back of the form.
- Send only this page to make corrections. Do not attach tax forms.

We asked for	You told us	The answer should be
A. Student's Information		
1. Student's Last Name		1
2. Student's First Name		2
3. Student's Middle Initial		3
4. Social Security Number		4
5. Date of Birth (MM-DD-YY)		5
6. State of Legal Residence		6
7. Citizenship Status		7
8. Year in College		8
9. Bachelor's Degree by 7-1-85?		9
10. Marital Status		10
11. Number of Dependent Children		11
12. Spouse 1/2 Time or More in College?		12
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28. U.S. Income Tax Paid	$	28 $ .00
29. Married Couple Deduction	$	29 $ .00
30. IRA/Keogh Payments	$	30 $ .00
31. Itemized Deductions	$	31 $ .00
32. Father's Income Earned from Work	$	32 $ .00
33. Mother's Income Earned from Work	$	33 $ .00
34. Yearly Social Security Benefits	$	34 $ .00
35. Yearly AFDC/ADC	$	35 $ .00
36. Other Untaxed Income	$	36 $ .00
37. Medical/Dental Expenses	$	37 $ .00
38. Elem./Jr. High/Sr. High Tuition	$	38 $ .00
39. Expected 1985 Income	$	39 $ .00

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SUMMARY OF PELL GRANT VALIDATION REQUIREMENTS FOR 1985-86

I. SELECTION:

All SARs eligible for a Pell Grant with an asterisk next to the SAI must be validated. Non-Pell eligible students may also have an asterisk next to the EC (but not the SAI). Validation for these students (provided that school does not possess conflicting information) is voluntary by schools, except for SARs with messages indicating that the Department has data that conflict with the application data regarding Social Security benefits and independent student status. If the SAR indicates that the Department has conflicting data on one or both of the two items for non-Pell eligibles, the school is required to verify that item if the school receives the ineligible SAR. Eligible students will be selected throughout the processing year using a combination of the following seven selection strategies:

*Integrated Verification Criteria -- common edits used by the Pell Grant Processor and voluntarily used by the major needs analysis services for 1985-86;

Pre-established criteria -- based on the system's edits;

Error prone modeling -- uses applicant characteristics to predict which groups of applicants are likely to have made errors;

Cross year comparison -- similar to error prone modeling, but uses application information from previous year as well as current year;

Questionable applicant status -- based on questionable tax filing status;

*Independent Student -- independent students with questionable income data;

Random

*New for 1985-86

II. ITEMS AND DOCUMENTATION: If the SAR of a Pell eligible student has an asterisk next to the SAI, the school must validate all of the following items:

A. ITEM: Adjusted Gross Income (Income from Income Tax Form), Items 27 and 40, and U.S. Income Tax Paid, Items 28 and 41

DOCUMENTATION: Tax Filer -- For the independent student (and spouse), a signed copy of the 1984 IRS Form 1040, 1040A, or 1040EZ, or comparable State income tax return; for the dependent student, a signed copy of the parent(s)' tax return and, if base year income was used in the SAI calculation, a signed copy of the dependent student's (and spouse's) tax return.

OR

The IRS listing of tax account information from the IRS.

*Non-tax filer -- Signed statement certifying that no tax return was or will be filed.

B. ITEM: Household Size, Item 22

DOCUMENTATION: Tax Filer -- A signed copy of the 1984 IRS Form 1040, 1040A, or 1040EZ, or comparable State income tax return, or the IRS listing of tax account information.

AND

If there is a difference in the number of exemptions claimed on the tax return and the number in the household on the student aid application, a signed statement which lists the names of the household members and explains any difference between the information included on the student aid application and the tax return unless other information in the school's records explains the difference.

*Non-tax Filer -- a signed statement which lists the names of those in the household (may be part of the statement for non-tax filers in Item A).

*New for 1985-86

C. ITEM: *Number Enrolled in Postsecondary Institutions, Item 23

DOCUMENTATION: A signed statement which lists the names of the household members who are or will be attending postsecondary educational institutions as at least half-time students, their ages, and the names and addresses (city and state) of those institutions, unless the school has on file its own or a service's student financial aid application which provides the names of the household members, their ages, and the names of the institutions.

AND

If the school determines that it has reason to doubt the data supplied by the student, the school must require source documentation such as a statement from the school the other family member is attending.

D. ITEM: All Untaxed Income and Benefits, Which Include:

1. Married Couple Deduction, Item 29

DOCUMENTATION: Tax Filer -- A signed copy of the 1984 IRS Form 1040, 1040A, or comparable State income tax return, if collected.

2. Social Security, Item 34 -- Only if SAR has the social security validation comment.

DOCUMENTATION: Dependent Student -- A document from the Social Security Administration showing the amount of benefits received in 1984 by the student's parent(s), the student, and the benefits received by the parents for the parent(s)' other children.

Independent Student -- A document from the Social Security Administration showing the amount of benefits received in 1984 by the student and the student's spouse.

*New for 1985-86

3. *All Other Untaxed Income and Benefits, Item 36 and Item 42

DOCUMENTATION: Tax Filer -- A signed copy of the 1984 IRS Form 1040, 1040A, or comparable State income tax return, or the IRS listing.

AND

The signed worksheet (or facsimile) for untaxed income and benefits (Item 36) or appropriate listing (Item 42) from the student aid application.

Non-tax Filer -- The signed worksheet (or facsimile) for untaxed income and benefits (Item 36) or appropriate listing (Item 42) from the student aid application.

AND

If the school determines that it has reason to doubt the data supplied by the student, the school must require source documentation such as a statement from the agency supplying the untaxed benefit, unless such a statement would not be applicable or would be unavailable.

4. *Student's VA Educational Benefits, Items 55 and 56

DOCUMENTATION: A copy of the student's award letter from VA.

OR

A statement from the school's veterans office specifying the latest monthly amount being received by the student and the number of months for which these benefits will be received.

OR

The VA rate table issued by the Veterans Administration.

*New for 1985-86

E. ITEM: Independent Student Status, Items 13-18

*DOCUMENTATION: Conflicting Documentation

a. Married Student -- A statement signed by the student's parent(s) certifying that the parent(s) did not and will not provide the student with financial assistance of more than $750 in 1985 and that the student did not and will not live with the parent(s) for more than 42 days in that year.

b. Unmarried Student -- A signed copy of the parent(s)' 1984 1040, 1040A, or 1040EZ or comparable State income tax return, or if the parent(s) did not file and will not file a tax return for 1984, a statement to that effect signed by the parent(s); and a signed statement by the parent(s) certifying that the parent(s) will not and did not provide the student with financial assistance of more than $750 in 1984 or 1985 and that the student did not and will not live with the parent(s) for more than 42 days in either of those years.

No Conflicting Documentation

Married student who is under 23 on January 1 of the award year for which aid is requested -- Same as a above; however, if the institution determines that the student's parent(s) are unable or unwilling to provide the required statements the school must consider the independent status verified.

Unmarried student who is under 23 on January 1 of the award year for which aid is requested -- same as b above; however, if the school determines that the student's parent(s) are unable or unwilling to provide the required tax returns or statements specified in b, the school must consider the independent student status verified if it determines that the student had sufficient income to support himself or herself including any dependents for the calendar year preceding the first calendar year of the award year.

New for 1985-86

Student is 23 or older as of January 1 of the award year and the school has no conflicting documentation on record -- No documentation is required.

III. DEADLINES: An eligible student who is enrolled at least half time must submit an SAR with an eligible SAI by June 30, 1986, or by the last day of enrollment, whichever comes first.

EXTENSION TO COMPLETE VALIDATION: A student who has met the above deadline but has not completed validation is eligible for payment if (s)he submits a corrected reprocessed valid SAR within 60 days of his/her last day of enrollment or by August 30, 1986, whichever comes first.

IV. UNUSUAL CIRCUMSTANCES: The following unusual circumstances allow students to receive Pell Grant payment without completing validation:

- o The student and the student's family are legal residents of the Trust Territory of the Pacific Islands (which includes the Marshall Islands and the Caroline Islands), Guam, American Samoa, or the Government of the Northern Mariana Islands.
- o The student is incarcerated at the time of validation.
- o The parent(s) of a dependent student are citizens of, and currently reside in, a country other than the United States.
- o The student dies during the award year.
- o The student is an immigrant who arrived in the United States during 1985 or 1986. (The student must meet the citizenship requirements in order to receive Title IV aid.)
- o The student's or the parent(s)' estimated income data was used to calculate the Pell Grant award on a Special Condition Application (except VA Educational Benefits).

o The student completed validation at another institution.

V. REPORTING REQUIREMENTS: When submitting the Payment Document schools must complete Item 4, Part 3, of the SAR using one of six validation status codes indicating whether the student was validated (either selected by the school or by the Department) and under which payment or tolerance option the student was paid.

VI. PAYMENT PROCEDURES: Schools may exercise, on a case by case basis, two payment options:

1. Require the student to submit all documentation and to have any corrections exceeding the tolerances reprocessed before any disbursement is made.

OR

2. Require no documentation or partial documentation before disbursing up to one-half of the Pell Grant award for the academic year. (ADS schools may not use this option.)

The required documents and, if necessary, the reprocessed SAR must be received before further disbursements may be made.

VII. TOLERANCES: Schools may exercise, on a case by case basis, three options under which the SAR would not need to be reprocessed:

1. The school has calculated a new SAI, using the correct information, and the scheduled award stays the same or increases based on that SAR. (Payment must be based on the original SAI.)

OR

2. The zero SAI Charts show that the SAI would remain zero upon correction.

OR

3. No dollar item has an error greater than $300, and the sum of all errors is no greater than $600. (For independent students use $200 and $400.)

VIII. INSTITUTIONAL LIABILITY IN USE OF TOLERANCE AND PAYMENT OPTIONS:

Payment Option 2: If the student does not bring in the documents and reprocessed SAR, if necessary, within the extension deadline, the school is liable for the full disbursement made to the student. The school is also liable for any overpayments if the student becomes less eligible after validation.

Tolerance Option I: The school is liable for overpayments due to errors in calculating the SAI. If the school discovers the error and the second half of the award is enough to cover the overpayment, the school bears no liability.

IX. OTHER REQUIRED VALIDATION:

A. If a school believes that any information on the SAR used in calculating the student's SAI is inaccurate, the school must request that the student validate that information.

B. Under section 668.16(f) the school shall validate any data for which it has conflicting documentation for all Title IV programs including the Pell Grant Program.

INTRODUCTION

Since February 1979, validation of student aid applications for selected eligible students has been required in the Pell Grant Program. Although the Student Assistance General Provisions, section 668.16(f), require schools to use information obtained during the Pell Grant validation in the determination of campus-based awards and eligibility for a Guaranteed Student Loan (GSL), there has been no required Department of Education (ED) validation for recipients of campus-based and/or GSL recipients who are not eligible for a Pell Grant.

While the degree of misreporting in the Pell Grant Program has been reduced as a result of the validation procedures, quality control studies show that some students and their parents still misreport their family and financial information. A recent Title IV quality control study has shown that students and their families make similar errors when applying for campus-based and GSL aid, and that the same items, such as income data and dependency status, were in error for all programs.

The Department is therefore planning to publish, in the summer of 1985, a Notice of Proposed Rulemaking (NPRM) requiring verification for all Title IV programs effective for the 1986-87 award year. Under this proposal, the Pell Grant Program will no longer have a separate validation system. The regulation proposes a minimum number of items to be verified, requires schools to have written policies and procedures for verification, and requires students to provide documentation of application data.

As part of the proposed integrated verification system, the Department, in cooperation with the Multiple Data Entry (MDE) processors, developed a series of edits which the Pell central processor and the MDE processors would include in their systems to flag Title IV students for validation. Even though validation of non-Pell eligible students will not be mandated for 1985-86, the MDEs have agreed to keep these edits, and the flags and messages that they generate, in their systems during the forthcoming award year. Schools may voluntarily use these edits to select and validate non-Pell eligible students in 1985-86. The Pell central processor will also include these jointly developed edits, along with selection edits similar to those used in prior years.

Use of the Pell central processor edits is also voluntary for non-Pell eligible students, with two exceptions. Both exceptions involve tape matches. The first is a tape match with files from the Social Security Administration, and the second is a match with prior year Pell Grant files to determine inconsistent answers to questions about dependency status. If comments appear on the Student Aid Report (SAR) because of these matches, in order to comply with section 668.16(f) of the Student Assistance General Provisions regulations, the school must reconcile the apparent discrepancies by requiring documenta-

tion for the item(s) receiving comment(s). (For example, if the social security comment appears in the Eligibility Letter of a non-Pell eligible student and the school receives the ineligible SAR, the school must request documentation to validate the reported social security benefits before the student can receive Title IV aid.) Except in these two instances, there will be no institutional liability in 1985-86, if a school does not validate the required data items on flagged SARs for non-Pell eligible students when it awards campus-based aid or certifies a Guaranteed Student Loan application. However, we strongly encourage schools to voluntarily use these edits, as well as their own methods, to select non-Pell eligible students who may have misreported information.

Following are general questions that are often asked regarding validation.

HOW ARE SARs SELECTED FOR VALIDATION?

Eligible Pell Grant students who appear likely to have erred in completing their applications will be selected for validation. The selection systems are outlined in the summary on page i. Selected eligible SARs will be flagged with an asterisk (*) next to the Student Aid Index (SAI) and next to the Expected Family Contribution (FC). The asterisks will appear on all subsequent SARs processed for the selected student. Non-Pell eligible SARs will be flagged with an asterisk (*) next to the FC, but not next to the SAI.

A selected SAR is either an SAR that has been flagged by ED (one that has an asterisk(*) by the SAI and FC number) or one that the school has chosen for validation. If ED has selected the SAR (flagged SAI), the student must validate the required data item(s) outlined in this Handbook. If the FC is flagged on non-Pell eligible SARs and the social security comment or the dependency status comment (or both) appears in the Eligibility Letter, the student must validate the item(s) cited in the comment(s). If the school has selected the SAR, the student must validate the data item(s) that the school specifies. The tolerances and payment procedures outlined in this Handbook must be used for all selected Pell Grant students, whether selected by ED or the school.

MUST SARs RESULTING FROM THE FILING OF A SPECIAL CONDITION APPLICATION BE VALIDATED?

Beginning in the 1985-86 award year, certain items on flagged Special Condition SARs must be validated. See page 45 for an explanation of the required items.

WHAT ARE MARKED COMMENTS IN AN ELIGIBILITY LETTER?

Certain comments in the Eligibility Letter have been marked to help financial aid administrators discern validation and questionable data comments from the other comments listed in the letter. The following is an example of the marked comments:

Dear Applicant:

This is in response to the form you submitted to FSAP on which you applied for a Pell Grant.

Your application has been selected for review. You must submit to your school a signed copy of your parents' 1984 U.S. Income Tax return or a statement that they did not file a tax return. Other documentation will also be requested. Contact your Financial Aid Administrator for further information.

Be sure to review the items that are in boldface type in Part 2 of your SAR. If you make any corrections to this report sign the Certification and return the signed, corrected form.

WHY ARE ITEMS HIGHLIGHTED ON AN SAR?

When an item is highlighted on an SAR, it is not an indication that the item must be validated. The highlighting on an SAR with an SAI indicates that an assumption was made for the data item or that the information was used as reported, but is questionable. Highlighted items are good candidates to validate as nonrequired data items. (See Validation of Discretionary Items, page 47.)

WHAT ARE ACCEPTABLE SIGNATURES?

Generally, except as provided for validation of independent student status, signatures on statements or copies of documents must be the student's (and spouse's) signature(s) if the applicant is an independent student. If the applicant is a dependent student, signatures must be the signatures of the parent(s) and/or student as appropriate (i.e., the parent must sign the parental tax return; income statement; non-tax filing statement; or the student must sign his or her tax return; income statement; or non-tax filing statement; and other documents requiring signatures must have both the parent's and student's signatures).

ARE THERE ANY CIRCUMSTANCES UNDER WHICH A STUDENT MAY BE PAID WITHOUT COMPLETING VALIDATION?

Sometimes, due to unusual circumstances, a student is unable to complete validation but may nonetheless receive his/her Pell Grant payments. The unusual circumstances under which a student may receive payment without completing validation are listed below. However, anytime your school has documentation that conflicts with data reported on the applications, or if you have reason to believe that the information is incorrect, these conditions do not apply.

1. The student and the student's family are legal residents of the Trust Territory of the Pacific Islands (which includes the Marshall Islands and the Caroline Islands), Guam, American Samoa, or the Government of the Northern Mariana Islands. In these cases, you must note the permanent mailing address in the student's file.

a. Guam residents born after 4/11/1899 are considered U.S. citizens by virtue of birth.

b. American Samoa residents are considered nationals, but are treated as citizens. They are issued a "document of identity" upon departure from American Samoa.

c. Residents of the Trust Territories of the Pacific Islands and the Government of the Northern Mariana Islands are considered as aliens but are not required to have a non-immigrant visa. They are required to have an identity document (similar to that of American Samoa) and an I-94 and are eligible for financial assistance even if the I-94 contains an ineligible endorsement, such as an F-1 or F-2 student visa.

2. The student is incarcerated at the time of validation. In these cases you should note in the student's file that the student was incarcerated.

3. The parent(s) of a dependent student are citizens of, and currently reside in, a country other than the United States. In these cases, you should get a statement to that effect signed by the student. (The student must meet the citizenship requirements in order to receive Title IV aid.)

4. The student dies during the award period. In this case, you may disburse payment for the time the student was eligible.

5. The student is an immigrant who arrived in the United States during the calendar years 1985 or 1986. (The student must meet the citizenship requirements in order to receive Title IV aid.)

6. The student completed validation at another school before transferring to your school. In these cases, you may obtain from the school completing the validation:

   a. A letter stating that the student's application data had been validated and the tolerance option used; and

   b. A copy of all three parts of the SAR on which payment was disbursed.

7. The student submits a flagged SAR with an SAI which results from the filing of a Special Condition Application. Although students are allowed to estimate 1985 income data, which is exempted from validation, the following items on the Special Condition SAR must be verified: household size, number in postsecondary educational institutions, VA educational benefits, independent student status, and the dependent student's taxable and untaxed income and benefits, if base year income was used to calculate the SAI. You may wish to collect the 1984 U.S. Income Tax Return to review other items reported on the Special Condition SAR. (See page 46.)

   The reason for the filing of the Special Condition Application should also be reviewed to confirm that the student was eligible to file. If you find that the student was not eligible to file a Special Condition Application, you must continue validation and have the student make corrections on the SAR received prior to the Special Condition SAR.

WHAT DO THE GENERAL PROVISIONS REQUIRE REGARDING VALIDATION?

The required validation procedures detailed in this Handbook are in addition to the conflicting documentation requirements outlined in the Student Assistance General Provisions. Under section 668.16(f) of the General Provisions, schools are required to develop an adequate system to verify the consistency of the information they receive from different sources with respect to a student's application for financial aid under Title IV programs. The General Provisions also require that schools use information obtained during the Pell Grant validation in the determination of the campus-based award, eligibility for a GSL, and State Student Incentive Grants (SSIG) if the school knows an SSIG includes Federal funds. The Pell Grant regulations state that, if a school has documents which indicate the information used to calculate the student's expected family contribution may be inaccurate, it may not pay a Pell Grant until the student corrects the error or verifies the data. Documents that a school may have on file which could show conflicting information include but are not limited to: need analysis forms, the Student Aid Report, VA documentation, a student's aid transcript, institutional applications, tax returns, written documentation received from the student or parents, documentation requested by the school, etc. Once you have conflicting documentation on file you must resolve all discrepancies before issuing any financial aid. This is true for ALL students, even if they have not been selected for validation, and for all Title IV programs.

All students selected for validation are required to submit a copy of their own or their parent's tax return, or both. Once you receive this document you must resolve any conflicting information reported on it and the SAR. On pages 37 and 38 , we have listed the items from the tax return which we consider conflicting information for purposes of section 668.16(f) and for which you must resolve any discrepancies. Other items that are good indicators that errors are present but which we do not define as conflicting are listed on pages 48 and 49.

A good example of the conflicting documentation issue is VA educational benefits. One of the requirements set by VA for payment of VA educational benefits to eligible students is that schools must certify the enrollment status of these students at the beginning of each academic year. In addition, every time a student makes any changes to this initial certification, the school must certify these changes to VA within 30 days from the time the change occurred. Since all schools must certify the enrollment status of students to VA, schools are responsible for assuring that these benefits have also been reported on these students' financial aid applications.

IS CITIZENSHIP A VALIDATION ITEM?

SARs will no longer be flagged for validation of citizenship status. A comment on the basis of citizenship will appear in the Eligibility Letter instructing students that they need to provide proof of their citizenship status. Although not a validation item, schools in the Title IV Student Financial Assistance programs must conform to each of the Title IV program regulations regarding the eligibility of students for aid with respect to citizenship. For further information on the program requirements and

appropriate documentation to verify citizenship status for the 1985-86 award year, see the Administrative Policy Questions and Answers in the April 1985 Dear Colleague Letter (Gen-85-6). These Qs & As describe the changes from the 1984-85 requirements in the 1984-85 Validation Handbook (and Correction Sheet) and the August 1984 Dear Colleague Letter (P-84-23).

WHAT IS IN-KIND SUPPORT?

In-kind support is something received in place of money, such as food, clothing, car, etc. We use "in-kind" support in determining the dependency status of a student. If the parent(s) provide "support" worth more than $750, the student must file as a dependent student. The value of the "support" received by the student from the parent(s) is never reported as "untaxed income." One type of in-kind support must be reported as untaxed income. Persons in the military and clergy often receive a housing allowance as a supplement to their salaries. Housing, or "quarters," allowance must be reported. Whether cash is actually received or free quarters are provided, the value of the allowance is reported. The same would be true for a rations allowance.

WHAT IS A MONETARY OBLIGATION?

A monetary obligation is a debt incurred in a person's name obligating that person to pay the debt, such as mortgage payments, car payments, utility bills, etc. In situations where the parent(s)' or the student's monetary obligations are being paid by a friend or relative, the value of the obligations must be reported as untaxed income. The following are examples of monetary obligations:

The student's parents are divorced and the student lives with the mother who rents an apartment. The father is paying the monthly rent directly to the landlord. The mother must report the total amount of the rent payments made by the father as untaxed income, since it is the mother's obligation to pay the rent.

The parents are divorced and the student lives with the mother. The father pays, directly to the school, one-half of the student's tuition. The student must report the total amount of the tuition the father pays as untaxed income since it is the student's obligation to pay for his/her education.

If a student owns a car on which the parent(s) are making payments, those payments would be reported as untaxed income. However, if the parent(s) own the car and the student keeps and drives it, no amount would be reported. Dependency status may then be in question.

HOW LONG ARE SCHOOLS REQUIRED TO RETAIN RECORDS?

In accordance with the record retention provisions in each of the Title IV program regulations and section 668.12(a) of the Student Assistance General Provisions, schools are required to retain the documentation used by them to validate selected students' data. Each program regulation states that these records must be maintained for five years. For specific Pell Grant requirements, see section 690.83 of the program regulations.

WHAT DO I DO IF IT HAVE MORE QUESTIONS?

If you have questions that are not answered in this Handbook, please contact the Student Validation Branch at (202) 472-6200.

CHAPTER I -- VALIDATION PROCEDURES AND ITEMS

During the 1985-86 award year, the required validation items will be:

- Independent Student Status
- Household Size
- Number in College (Number in Postsecondary Educational Institutions)
- Income from Income Tax Form (Adjusted Gross Income)
- U.S. Income Tax Paid
- Untaxed Income and Benefits
  - Married Couple Deduction
  - Social Security Benefits*
  - Other Untaxed Income (listed on the application worksheet and the income tax return)
  - VA Educational Benefits

*Documentation from the Social Security Administration must be provided if there is a comment in the student's Eligibility Letter requesting validation of social security benefits.

A detailed discussion of the validation process for each required item follows the section "Procedures for Validation." Throughout the Handbook we have added "validation suggestions and reminders" in an effort to reduce further misreporting of student data and to help you in the validation process. After the discussion of the data item, you may find a list of questions that you may wish to ask the student to make sure that the correct data for that item has been reported. On page 112, Appendix R, you will find a chart from the most recent Quality Control Study listing the student error by application item and ranking the items according to degree of error.

PROCEDURES FOR VALIDATION

The validation procedures are designed to provide an equitable and uniform method for validating the information on Pell Grant SARs. The tolerance and payment options apply to both the required validation items and discretionary items that you may choose to validate. The procedures outlined below do not reflect these options. See "Tolerance Options" (page 61) and "Withholding Payment of the Pell Grant Award" (page 70) for a discussion of these options.

The validation steps are as follows:

1. Collect appropriate documentation from the student selected for validation.

2. If any documentation required by the Department is missing, inform the student that (s)he must provide it before validation can be completed. If the student refuses to provide documentation, inform the student that no payments will be disbursed.

3. Once all of the documentation is received, compare it to Part II of the student's SAR to determine if the SAR is correct.

4. If the student's SAR requires correction as a result of validation, each correction, made on Part 2 of the SAR, must reflect the same data shown on the validation document. It is important that all necessary signatures be on Part 2 of the SAR before it is sent to reprocessing. If the SAR does not require correction, skip to Step 7.

   NOTE:

   Under certain circumstances you may sign for the dependent student's responsible parent(s). These conditions are: 1) the responsible parents are deceased; 2) it is not possible to contact the responsible parents because the parents are on a prolonged absence from the United States and are inaccessible; 3) the responsible parents' address is unknown; or 4) the responsible parents are physically or mentally incapacitated.

5. Instruct the student to send the signed corrected SAR, Part 2, for reprocessing, to:

   Federal Student Aid Programs
   P.O. Box 4152
   Iowa City, Iowa 52244

   You should keep a photocopy of the corrected SAR on file for further reference.

6. When the student presents the reprocessed SAR to you, review it to make sure all of the necessary corrections have been made. If the student has changed additional data elements during the correction process, you should check the validity of these changes.

7. Complete Validation Status Code, Part 3, Item 4 of the SAR. Completion of the Validation Status Code will certify that you have validated the SAR. For further information on the codes see Appendix A, page 81.

8. Keep all pertinent validation information in the student's file for audit and program review purposes. The types of records to be kept include, but are not limited to:

   - o 1984 U.S. Income Tax Return Forms 1040/1040A/1040EZ or comparable State tax return, or the statement of non-tax filing;
   - o the SAR;
   - o the dates the SAR and requested documents were received;
   - o documents used to reconcile exemptions claimed and household size;
   - o statements regarding number in postsecondary educational institutions, untaxed income and benefits, etc.;
   - o documents used to validate discretionary data items;
   - o need analysis documents;
   - o letters of explanation; and
   - o alternate documents, etc.

These records must be kept confidential, in a manner consistent with the Family Educational Rights and Privacy Act of 1974 (FERPA), also known as the "Buckley Amendment." Do not send us any validation documentation unless you are referring the case to us for resolution. (See page 74 for discussion of case referrals.)

9. Review the information on all subsequent SARs submitted by validated students during the 1985-86 award year. Once students are selected for validation, all SARs produced subsequently will be flagged.

VALIDATION ITEM: INDEPENDENT STUDENT STATUS -- SAR ITEMS 13-18

Most independent students selected for validation must validate their independent student status. Required documentation varies based on age, marital status, and whether ED or the school possesses information which conflicts with what is reported on the SAR.

In situations where the parents are divorced or separated, the student must obtain documentation, if required, from the responsible parent. For information on how to determine the responsible parent and information relating to the death of the parents, see Appendix D, page 87.

Documentation for Independent Student Status: Conflicting Documentation

Unmarried students who projected on their 1984-85 applications that they would be claimed as tax exemptions on their parent(s)' 1984 tax return, or would be supported by their parent(s) in 1984, or would live with their parent(s) in 1984, but file as "independent" on their 1985-86 application, will receive the following comment in their Eligibility Letters:

> "You must submit a signed copy of your parents' 1984 U.S. Income Tax return(s), Form 1040/1040A/1040EZ, to the Financial Aid Office at your school."

If the comment appears in the student's Eligibility Letter, you must obtain the following:

- o Unmarried Student

  A signed copy of the parent(s)' 1984 U.S. Income Tax Return, Form 1040/1040A/1040EZ, or comparable State income tax return, and a signed statement by the parent(s) certifying that the parent(s) will not and did not provide the student with financial assistance of more than $750 in 1984 or 1985 and that the student did not and will not live with the parent(s) for more than 42 days in either of those years.

  OR

  If the parent(s) did not file and will not file a tax return for 1984, a statement signed by the parent(s) certifying that the parent(s) did not and will not provide the student with financial assistance of more than $750 in 1984 or 1985 and that the student did not and will not live with the parent(s) for more than 42 days in either of those years.

- o Married Student

  A married student should not receive the comment.

If the comment does not appear in the student's Eligibility Letter but the school possesses conflicting documentation, you must obtain the following:

- Unmarried Student

  A signed copy of the parent(s)' 1984 U.S. Income Tax Return, Form 1040/1040A/1040EZ, or comparable State income tax return, and a signed statement by the parent(s) certifying that the parent(s) will not and did not provide the student with financial assistance of more than $750 in 1984 or 1985 and that the student did not and will not live with the parent(s) for more than 42 days in either of those years.

  OR

  If the parent(s) did not file and will not file a tax return for 1984, a statement signed by the parent(s) certifying that the parent(s) did not and will not provide the student with financial assistance of more than $750 in 1984 or 1985 and that the student did not and will not live with the parent(s) for more than 42 days in either of those years.

- Married Student

  A statement signed by the student's parent(s) certifying that the parent(s) did not and will not provide the student with financial assistance of more than $750 in 1985 and that the student did not and will not live with the parent(s) for more than 42 days in that year.

Documentation for Independent Student Status: No Conflicting Documentation

If the comment does not appear in the Eligibility Letter or the school does not possess conflicting documentation, you must do one of the following, depending on the marital status and age of the student:

- Unmarried student who is under 23 on January 1 of the award year for which aid is requested

  You must ask that the student provide:

  - A signed copy of the parent(s)' 1984 U.S. Income Tax Return, Form 1040/1040A/1040EZ, or comparable State income tax return, and a signed statement by the parent(s) certifying that the parent(s) will not and did not provide the student with financial assistance of more than $750 in 1984 or 1985 and that the student did not and will not live with the parent(s) for more than 42 days in either of those years.

    OR

  - If the parent(s) did not file and will not file a tax return for 1984, a statement signed by the parent(s) certifying that the parent(s) did not and will not provide the student with financial assistance of more than $750 in 1984 or 1985 and that the student did not and will not live with the parent(s) for more than 42 days in either of those years.

  If you determine that the student's parent(s) are unable or unwilling to provide the required tax returns or statements, you must consider the independent student status verified if you determine that the student had sufficient income to support himself or herself, including any dependents, for the 1984 calendar year.

- Married student who is under 23 on January 1 of the award year for which aid is requested

  You must ask that the student provide a statement signed by the student's parent(s) certifying that the parent(s) did not and will not provide the student with financial assistance of more than $750 in 1985 and that the student did not and will not live with the parent(s) for more than 42 days in that year.

  If you determine that the student's parent(s) are unable or unwilling to provide the required statement, you must consider the independent status verified.

- Student is 23 or older as of January 1 of the award year

  No documentation is required.

School's Responsibility to Obtain the Required Documentation

A school must request that the independent student obtain the parents' tax return and statements. If the student relays to you that his or her parents are unable or unwilling to provide the documents, you should contact the parents directly to ask for them. If the parents do not provide the documents after you have made a reasonable effort to obtain them, and if there is no conflicting documentation, you must follow the procedures listed under "Documentation for Independent Student Status: No Conflicting Documentation" before you can consider the independent student status verified.

It is reasonable to assume that the independent student's parent(s) were unable to provide the documentation requested under the following circumstances: 1) the responsible parents are deceased; 2) it is not possible to contact the responsible parents because the parents are on a prolonged absence from the United States and are inaccessible; 3) the responsible parents' address is unknown; or 4) the responsible parents are physically or mentally incapacitated.

Examples of the parent(s) being unwilling to provide the requested documentation may be a signed statement from the parent(s) refusing to provide the information or a record of the telephone conversation you had with the parent(s) in which they refused to provide the documentation.

Answering the Dependency Status Questions

The three questions that the student must answer to verify that his/her dependency status has not changed since filing the application are:

	In 1984	In 1985
1. Did the student live with parents for more than six weeks (42 days)?	Yes/No	Yes/No
2. Did the student receive more than $750 worth of support from the parent?	Yes/No	Yes/No
3. Did the parent(s) claim student as U.S. income tax exemption?	Yes/No	Yes/No

- o If the unmarried student answers "yes" to any of the questions, (s)he is considered to be dependent and must provide information pertaining to the parent's household.

- o If the student answers "no" for all the questions, (s)he is considered independent and must provide information pertaining to his/her own household.

- o For the married student, only the 1985 answers apply. You may wish to review the "Definition of Parent," Appendix D, on page 87.

- o If the student was independent at the time of application and has since become dependent, or if (s)he expected to become dependent but will continue to be independent, (s)he must change his/her dependency status by filing a Correction Application.

Dependency Status Warning Comment

A warning comment concerning dependency status will appear on certain SARs and may be used as a guide in validating the dependency status of students not required to submit a copy of their parents' tax return. We strongly recommend validation of the independent students' dependency status in these cases because the results of a recent quality control study (Appendix R, page 112) identify misreporting of dependency status as the most common error. The comment reads as follows:

> "WARNING: You applied as an independent student, using information about yourself. However, in 1984-85, you applied as a dependent student, using information about your parent(s). Review your answers to items 13, 15 and 17. If they are not correct, you cannot use this SAR to get a Pell Grant."

The comment will always appear on SARs selected for validation that have the comment requiring the students to submit a copy of their parent's tax return. It will also appear in two other situations:

1) It will appear on SARs not flagged for validation in cases where the student's current marital status is reported or assumed to be unmarried; the current dependency status is independent; and the student answered "yes" to at least one of the base year dependency status questions but answered "no" to the expected year dependency status questions on the 1984-85 application.

2) It will appear on SARs selected for validation for reasons other than dependency status and the comment requiring submission of the parents' tax return is not present. In this case, validation of dependency status is required because it is one of six required data items.

Student Pays Rent to Parents

Sometimes a student who lives with his/her parent(s) will claim independence because (s)he pays rent to the parent. Beginning with the 1985-86 award year, a student who is living with the parent(s) in the parent(s)' residence, must answer "yes" to the question of living with parent(s), even if (s)he pays rent to the parent(s). Note that we would not consider two halves of a duplex or two adjacent townhouses to be the same residence if they are independent units that could be sold or rented separately. However, if the duplex or townhouse in which the student lives is owned by the student's parent(s), the student must meet the requirements of any other tenant (i.e., rental agreement, payment of market value rent, etc.) in order to be able to answer "no" to the support ($750) question.

Depending on certain factors in the student's profile, such as age, income and home ownership, the student could answer "no" to the living with parent(s) question and share a residence with the parent(s) provided the home did not belong to the parent(s) and the parent(s) did not support the student. For example, if the student and the parent(s) live in a residence owned or rented solely by the student, the student should answer "no" to the residency question. However, if the parent(s) lives in the home of a relative, and the student lives with the parent(s), the student must answer "yes" to the question about living with the parent(s). If the student and the parent(s) live in a residence jointly owned or jointly rented by the student and the parent(s), the student must answer "yes" to the question about living with the parent(s).

Validation Suggestions and Reminders for Independent Student Status

1. Independent students with low incomes (below the family size offset) may be dependent. Have students explain what their expenses were and how they were able to meet them. Monetary gifts are considered as untaxed income.

2. Remember that students who have borrowed more than $750 from their parents must file as dependent. If you feel a student's independence is questionable, be sure to ask about borrowing from the parents.

3. Frequently, students live with their parents and pay rent, but incorrectly claim independence. If the student's address and parents' address are the same, inquire carefully about the living arrangement.

4. A student living separately in a home or apartment owned by the parent may be independent if the requirements of any other tenant are met; i.e., rental agreement, payment of market value rent, etc. Otherwise, the student is dependent. In most cases, students renting from their parents do not pay fair market value for rent.

5. It is very difficult for unmarried students under age 23 to be financially independent of their parents for the length of time it takes to establish independence according to our rules. This is particularly so if the student has been enrolled in college continuously since high school. Consider validating the independent status of all students who meet this profile, even if they are not selected by the Department. Also consider validating the status of all students who were dependent in 1984-85 and independent in 1985-86.

VALIDATION ITEMS: HOUSEHOLD SIZE--SAR ITEM 22 AND NUMBER ENROLLED IN POSTSECONDARY EDUCATIONAL INSTITUTIONS--SAR ITEM 23

Documentation for Household Size

To validate the household size, you must collect the following, depending on the tax filing status:

- Tax Filers

  A signed copy of the 1984 IRS Form 1040, 1040A, or 1040EZ;

  OR

  A signed copy of the comparable State income tax return;

  OR

  An IRS listing of the tax account information.

  AND

  If there is a difference in the number of exemptions claimed on a Federal or comparable State income tax return and the number in the household on the student aid application, a signed statement which lists the names of the household members and explains any difference between the information included on the student aid application and the tax return, unless other information in the school's records explains the difference.

- Non-Tax Filers

  A signed statement which lists the names of those in the household (may be part of the statement for non-tax filers on page 24).

Documentation for Number Enrolled in Postsecondary Educational Institutions

To verify the number enrolled in postsecondary educational institutions, you must collect*:

- A signed statement which lists the names of the household members who are or will be attending postsecondary educational institutions as at least half-time students, their ages, and the names and addresses (city and state) of those institutions.

  AND

- If the school determines that it has reason to doubt the data supplied by the student, the school must require source documentation such as:

  - A statement from the school the other family member is attending.

  - Letters granting acceptance from the admissions office, the registrar, or a similar source at the school where attendance is planned.

- Receipts for dormitory or tuition payments or registration fees.

- Photocopies of student identification cards.

You may determine that one reason to doubt the information is that the student has misreported another data item on the SAR.

*Documentation is not needed if the number reported is one.

Documentation Already on File That Validates Household Size and Number Enrolled in Postsecondary Educational Institutions

Even if the student is selected for validation, you do not need to collect separate statements to validate household size and number in postsecondary educational institutions if:

o The student has signed the certification on the SAR.

AND

o Your school has information on file which provides the names of the household members and indicates those who are or will be attending postsecondary educational institutions as at least half-time students, their ages, and the names of the schools that they are planning to attend. Such information might be the school's application, or Side II of the FAF where the names of the household members are listed.

AND

o This information agrees with the SAR on which you will make payment.

If the data in either of these two items has changed since filing the original application, the student must update the data and provide appropriate documentation.

Validation Suggestions and Reminders for Household Size

1. Make sure the spouse of the married dependent student is not counted in the household.

2. Sometimes a sibling claims younger siblings as tax exemptions but the parents report all of the siblings in household size. In this situation, the parents should be able to prove that they do provide more than half of their children's support by providing an itemized listing of expenses.

3. A common reason that exemptions on the tax return differ from reported household size is that the applicant was not claimed as an exemption by the parents. If there is a difference, check this possibility first. If this is the reason, and you have a copy of the tax return, you do not need other documentation.

4. Ask if siblings 18 or older are still in the household. (Remember siblings in college must be able to answer yes to one of the three dependency questions to be included in the household.)

UPDATING DEPENDENCY STATUS, HOUSEHOLD SIZE, AND NUMBER ENROLLED IN POSTSECONDARY EDUCATIONAL INSTITUTIONS

All students are required to certify that dependency status, number in the household size, and number enrolled in postsecondary educational institutions are correct either at the time they submit the SAR to the school, or if selected for validation, at the time of validation. This certification statement is on Side 2 of the Eligibility Letter, under "STUDENT'S USE":

> "I certify that items 22, 23 and those in Section B reflect any changes that have occurred since application."

Updating Dependency Status

The student must update his/her dependency status:

- If at any time answers to the dependency status questions change;

OR

- If the student originally filed his/her dependency status incorrectly.

To update the dependency status the student must file a Correction Application. A Correction Application collects the same information which should have appeared on the application if a student had answered the dependency questions correctly. Asset values and any corresponding debts and marital status must be answered as they should have been as of the original filing date.

A Correction Application can be obtained through the Application Processing Center or the Federal Student Information Center (see Appendix G, page 95).

Changes in Marital Status That Do Not Require Updating of Dependency Status, Household Size and Number Enrolled in Postsecondary Educational Institutions

The dependent student who marries after filing the application and would otherwise qualify as an independent student CANNOT update his/her dependency status, household size, or number enrolled in postsecondary educational institutions based on the new marital status. Once a student has filed an application and the dependency has been decided, it cannot be changed unless the student filed the original application incorrectly or is eligible to file a Special Condition Application.

This means that a single dependent student who marries after the date in Item 64 of the SAR cannot refile as independent even if all the answers to the dependency questions for 1985 are "No." Also, if an independent student or the parent of a dependent student had originally filed as "single, divorced, separated, or widowed" and at the time of validation is married, the household size should not be "updated" to include the spouse (or the spouse's children), nor should the SAR be changed to include the spouse's financial data.

Updating Marital Status Based on a Special Condition Application

If the independent student or the parents of the dependent student had originally filed as "married" and are now divorced, separated, or widowed, a Special Condition Application must be filed in order to update the marital status. However, filing the Special Condition Application is at the student's option. If the student does not wish to file a Special Condition Application to correct the marital status, or (s)he has filed the application but does not wish to use the SAR resulting from the Special Condition Application because the prior SAR has a lower SAI, then you would not update the household size to take out the former spouse (or the spouse's children) nor would you exclude any of the spouse's financial information.

Documentation for Marital Status

If you wish to determine a student's marital status as of the date of the application so that you can validate this item, you may request a copy of the student's marriage license or marriage certificate. If the student cannot obtain a copy of this document, you may wish to accept a signed or notarized statement from the student's parent(s) providing the student's date of marriage, or a statement signed by both the student and spouse which provides the date of marriage.

Updating Household Size and Number Enrolled in Postsecondary Educational Institutions

Only those persons meeting the program's definition of household size (see Appendix E, page 91) can be included in the household size and number enrolled in postsecondary educational institutions.

The household size and the number enrolled in postsecondary educational institutions must be updated in the following circumstances:

- Selected Students

  If the household size or the number enrolled in postsecondary educational institutions has changed at the time the student is being validated the student must update this information to reflect that change.

  If these two items change after a student has been validated, the student may not update these changes.

- Non-Selected Students

  If the household size or the number enrolled in postsecondary educational institutions has changed at the time the student submits the first SAR to the school, the student is responsible for updating any changes.

  If these two items change after a student has submitted the SAR, the student may not update these changes.

VALIDATION ITEMS: INCOME FROM INCOME TAX RETURN (ADJUSTED GROSS INCOME) AND U.S. TAX PAID

Required Documentation for AGI and U.S. Tax Paid for All Students

To verify the 1984 adjusted gross income (AGI) and U.S. tax paid, you must collect:

- o A signed copy of the 1984 U.S. Income Tax Return, Form 1040, 1040A, or 1040EZ;

OR

- o A signed copy of the comparable 1984 State income tax return;

OR

- o An IRS listing of tax account information from the IRS*;

OR

- o If no tax return was or will be filed, a signed statement which must confirm that the information on the application is complete and correct and that no 1984 tax return was or will be filed and providing:

  - The sources of income earned from work stated on the application;

  AND

  - The amount of income for each source.

The appropriate tax return or statement must be signed by:

- o The independent student (and spouse) when you are verifying the taxable income of the independent student (and spouse).

- o The dependent student's parents (at least one parental signature) when you are verifying the taxable income of the parents.

*See Appendix I for information about the IRS listing and changes.

Dependent Student's Parent(s) and Independent Student (And Spouse) -- SAR Items 27 and 28

The 1984 AGI is the amount reported on:

- o Line 32 of the IRS Form 1040;

- o Line 14 of the IRS Form 1040A;

- o Line 3 of the IRS Form 1040EZ;
- o Line 3, Column C, of the IRS Form 1040X; or
- o Line 32 of the IRS Form 1040, if a Schedule G is filed with the income tax return.

The 1984 U.S. tax paid is the amount reported on:

- o Line 50 of the IRS Form 1040;
- o Line 23 of the IRS Form 1040A;
- o Line 9 of the IRS Form 1040EZ;
- o Line 10, Column C, of the IRS Form 1040X; or
- o Line 50 of the IRS Form 1040, if a Schedule G is filed with the income tax return.

Dependent Student (and Spouse) -- SAR Items 40 and 41

You must validate the student's (and spouse's) 1984 AGI and U.S. tax paid for all eligible dependent students whose SARs have been flagged for validation and whose SAIs have been computed using 1984 base year income. Selected students will not receive a comment telling them that they must validate this item.

You must use the same line references and documentation to verify the dependent student's (and spouse's) 1984 AGI and U.S. tax paid as outlined above under "Income from the Income Tax Return (Adjusted Gross Income) and U.S. Tax Paid for the Dependent Student's Parents and Independent Student (and Spouse)" and "Required Documentation for AGI and U.S. Tax Paid."

The appropriate tax return or statement must be signed by the dependent student (and spouse). The AGI for the dependent student (and spouse) is reported in SAR Item 40. The U.S. tax paid for 1984 is reported in SAR Item 41.

Dependent Student's Parents and Independent Student (and Spouse): Non-Tax Filers

When the student claims that a tax return was not or will not be filed, you must obtain a statement from the student or parent. The statement signed by the independent student (and spouse), or if dependent the student's parent must confirm that all the information on the SAR used to calculate the Pell Grant award is complete and correct and that no tax return has been or will be filed, and provides the sources of income earned from work stated on the application and the amount of income for each source.

You may wish to develop a statement, such as the sample below, to be completed by non-tax filers.

> I (we) have not filed and will not file a 1984 U.S. Income Tax Return Form 1040/1040A/1040EZ. All information on the Student Aid Report which will be used to calculate my (son's/daughter's/spouse's) Pell Grant award is complete and correct.
>
> INDEPENDENT STUDENT (AND SPOUSE)
>
> _____ _____
> Applicant Date
>
> _____ _____
> Spouse Date
>
> DEPENDENT STUDENT'S PARENTS
>
> _____ _____
> Father Date
>
> _____ _____
> Mother Date

Dependent Student (and Spouse): Non-Tax Filers

If the student (and spouse) did not and will not file a 1984 U.S. income tax return, the amount reported in SAR Item 40 should be the amount of taxable income which would have been reported if an income tax return had been filed.

Taxable income includes the student's (and spouse's) wages, salaries, and tips (excluding financial aid*), interest income and dividends after IRS exclusion, and other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents and all other taxable income).

> *At your discretion you may request that the student submit documentation to verify financial aid earnings not received from the school, such as a copy of the W-2 form, a statement from the school from which the income was earned, or a signed statement from the student, etc. If the student received financial aid earnings from your school, you must note in the student's file that the income excluded from AGI was financial aid earnings. To determine whether Cooperative Education (Co-op) earnings should be reported as income, see Appendix F, on page 93.

To verify taxable income not reported on the tax return you must obtain a signed statement from the student (and spouse) which must confirm that all the information on the SAR used to calculate the Pell Grant award is complete and correct, and that no tax return has been or will be filed. The sample above may be revised to include the dependent student's (and spouse's) signature or you may develop a separate statement to be signed by the student (and spouse).

At your discretion you may require the student (and spouse) to submit a statement from the IRS certifying that no tax return was filed (see page 98, "Guide to Requesting Tax Return Information from the IRS"). We encourage you to require additional documentation to verify taxable income not reported on a tax return. In addition to the non-tax filing statement, you may request copies of the W-2 statement, a statement of earnings from the employer, or a statement of income signed by the student (and spouse).

Information About the Dependent Student's (and Spouse's) 1984 Income and U.S. Tax Paid

The Pell Grant formula allows the dependent student's estimated 1985 income to be used in the calculation of the SAI if the projected 1985 income is less than or equal to 60 percent of the 1984 reported income. This provision compensates for the fact that the dependent student is now allowed to file a Special Condition Application based on the loss of full-time employment.

The "SC" Code at the bottom of the SAR (Part 1, Side 1, of the Eligibility Letter or Part 2, Side 1 of the Information Review Form) will tell you whether the dependent student's (and spouse's) 1984 income, estimated 1985 income, or no contribution from income, was used in the calculation of the SAI.

If the "SC" Code is "B" you must collect the appropriate document to validate the student's (and spouse's) 1984 AGI, U.S. tax paid, and other income and benefits. If the "SC" Code is blank, zero or an "E", validation of this item is not required.

The following chart will assist you in determining when the student's (and spouse's) 1984 income, U.S. tax paid, and other income and benefits must be validated:

SC CODE	YES	NO
If the SC Code is "0 B"	X	
If the SC Code is greater than 0 and B ("50 B")	X	
If the SC Code is "0 E"		X
If the SC Code is greater than 0 and E ("50 E")		X
If the SC Code is blank		X
If the SC Code is 0 and no letter follows the 0		X

Dependent Student's (and Spouse's) 1984 U.S. Tax Paid

If the student has not filed a U.S. income tax return but plans to do so, (s)he will be allowed to estimate the amount of tax that will be paid. This is the amount withheld minus any refund or the amount withheld plus any additional amount due. This amount should not include FICA, self-employment, or other taxes. The student is not allowed to copy the amount of "Federal Income Tax Withheld" from the W-2 Form or count sales, property, or any other taxes that are not taxes on income.

If the student has not filed and will not file a U.S. income tax return, the student is not allowed to estimate the amount of tax that would be paid if a tax return were filed. SAR Item 41 should be zero.

Dependent Student's (and Spouse's) 1985 Estimated Income

Some dependent students may receive the following comment in their Eligibility Letters:

> "Last year you estimated that you would receive no income for the summer and the school year, but this year you have reported income for that period and again estimated no summer or school year income. Review your answers to items 51, 52, 53, and 54. If these estimates were not based on the best information available when you applied, you must correct your estimates."

Students are required to correct their estimated income if the income was incorrectly reported by the student on his/her original application. Two examples of estimated income incorrectly reported by a student follow:

- The student worked from January to April 1985 and earned $500. The student is no longer employed when completing the original application. Because (s)he is no longer employed at the time of application and projects not to be employed during the remainder of the award year, the student enters "0" for estimated income. This is incorrect. Because the student had already earned $500 in 1985, this amount plus any additional amount the student expects to receive (including unemployment compensation benefits) must be included when completing the original application.

- The student is completing the original application in March and has not been employed in 1985. The student has been accepted for a part-time job, earning $500, beginning in April. Because the student has not yet started work, (s)he did not include the $500 (s)he expects to receive during the award year. This is incorrect. Because the student knew at the time of completing the original application that (s)he would be receiving the $500, it must be included as estimated income.

Validation Suggestions and Reminders for Adjusted Gross Income and U.S. Tax Paid

1. Students who were not married in the base year, but were married when they applied, frequently do not report the spouse's income. Be sure to check SAR Item 10, student's marital status, and the spouse's earnings. Ask if the spouse is, or was, employed. Remember, the income of the married dependent student's spouse must be reported, even though the spouse is not counted in the household size.

2. Students have been known to alter the income amounts and/or the year on a W-2 form. Be sure to carefully examine these forms and, if altered, request a statement from the agency/employer issuing the W-2 form. If you believe that the tax return, W-2 form, or another document was altered for the purpose of receiving benefits to which the student would otherwise not be entitled, refer to the section in this Handbook on reporting suspected fraud.

3. When no tax return was filed, make sure tax withheld was not reported as tax paid.

4. Check the filing status on the tax return and be sure to collect both tax returns for students/parents who are married but filed separately.

5. If the AGI appears to be low for the family size, ask about untaxed income.

6. Be sure that College Work Study earnings and taxes are deducted from the reported AGI and tax paid.

7. When a joint tax return was filed and the marital status is divorced, separated or widowed, 50 percent of the married couple deduction should be reported in Item 29 of the SAR.

8. Many dependent students report a high base year income and low estimated income in dependent student/spouse's earnings. Have students explain why. Be sure to check to see if they reported the same way last year. Have students change both years' estimates, if appropriate.

9. A student may report parents' marital status as divorced, but both parents are still living in the household. Check to see if your State considers this living arrangement as a common-law marriage, in which case both incomes should be reported on the SAR and both parents counted in the household. If not, only the income of the responsible parent is to be reported.

INFORMATION RELATING TO ADJUSTED GROSS INCOME AND U.S. TAX PAID APPLICABLE TO ALL STUDENTS

Information about the Tax Returns

Form 1040EZ

Because the 1040EZ is meant to be filed by a single tax filer claiming no exemptions, you may question whether to accept the 1040EZ from the parent who reports marital status on the SAR as "married" or reports marital status on the SAR as "single" and reports two or more in the household size. The Pell Grant regulations and the IRS regulations differ. Therefore, it may appear that the parent has incorrectly filed the 1040EZ when, in fact, this is not the case. In the following two instances, the parent was eligible to file the 1040EZ and, therefore, the 1040EZ is acceptable:

- The student meets the Pell Grant definition of a "dependent student" and must be included in household size but does not meet IRS' definition of "exemption" and cannot be claimed as an exemption on the tax return.

- A parent who was single at the time of filing the tax return is married at the time the application for financial aid is filed.

When the 1040EZ is being used to verify the dependent student's (or spouse's) taxable income (SAR Item 40), make sure that you verify the student's (or spouse's) AGI as reported on line 3 of the 1040EZ and not the "taxable" income reported on line 7 of the 1040EZ.

Photocopies

Photocopies of the tax forms are acceptable. However, if you doubt the validity of the copy, or if it is the institution's policy, you may require the student or parent(s) to submit official documents from the IRS.

Common Errors Found in the Reporting of Tax Paid

The following are common errors encountered in reporting tax paid:

1. Reporting tax withheld. Independent students or parents, who have earned income but have not filed and will not file a 1984 tax return, are not permitted to report tax withheld as tax paid;

2. Reporting total tax paid (line 56 of form 1040);

3. Reporting only the amount of additional tax due when the return was filed.

4. Reporting zero tax paid when no additional tax was due when the return was filed; and

5. Reporting tax paid on financial aid which is not reported in AGI.

Common Problems in Verifying Adjusted Gross Income and U.S. Tax Paid

1. Divorced/Separate/Widowed Parent or Student

The divorced, separated, or widowed parent or student filed a joint income tax return. NOTE: In cases where a joint income tax return was filed, IRS will send a copy of the tax return to either party upon request.

In this case, the student or parent must submit a copy of the 1984 joint return and the appropriate W-2 statements or statements of earnings from the employers. From the joint income tax return, the student or parent should use the appropriate income data that would have applied (except for one-half of the married couple deduction) if income other than wages, salaries, tips, etc. (i.e., interest, dividends, business income) is included in adjusted gross income on the joint tax return. The amounts received from these sources by the student or parent (excluding financial aid) must be added to the amount received from these sources by the student or parent to compute his/her own adjusted gross income. A statement signed by the independent student or the parent is sufficient to verify the manner in which this income was divided. The same procedures should be used for dividing business or farm losses or gains.

When the amount of AGI listed on a joint income tax return has been reduced as a result of the IRS' "Adjustments to Income" (lines 24 through 31 of the 1040 or lines 11a through 12 of the 1040A), only the amount of the adjustments that applies to the parent or the student can be used to reduce his/her own AGI. That is, if an item is such that it applies to the parent or student (e.g., employee business expense) only, his/her portion can be used as an adjustment to the AGI. If an item applies to a couple jointly (e.g., moving expenses), 50 percent of the amount can be used as an adjustment to the parent's or student's AGI.

To determine the amount of U.S. tax paid on the adjusted gross income of the student or parent, you may use either of the following procedures, although "a" is preferred. We have included a copy of the IRS Tax Rate Schedule as Appendix P, on page 110, for your convenience. If the student or parent does not agree with your calculation of the amount of U.S. tax paid on his/her own adjusted gross income, the student or parent must provide you with a written statement from IRS, an accountant, or lawyer certifying the amount of taxes that would have been paid by the student or parent on his/her own adjusted gross income.

a. Calculation of U.S. Income Tax. You may use the IRS Tax Rate Schedule to figure the amount of income tax that the parent or student would have paid if a separate tax return had been filed. The number of exemptions used in this calculation should be the number the student or parent could have claimed if a separate tax return had been filed. If you use itemized deductions to calculate the income tax, the portion of the total deductions which the student or parent could have claimed could be used in the calculation.

b. Proportional Distribution of the Total U.S. Income Tax Paid. Under this distribution, the parent's or student's percentage of the total income tax paid would be the same as the percentage contributed by that person to the combined adjusted gross income. For example, a dependent student's father earned $6,000, the mother earned $10,000, and the income tax paid was $1,800. In order to calculate the amount of income tax paid by the father, calculate the father's percentage of the combined adjusted gross income. Because the adjusted gross income is $16,000, the father's portion is 6/16. The tax paid by the father is 6/16 x $1,800 = $675.

2. Tax Return Cannot Be Obtained

a. Dependent Student. Sometimes the dependent student cannot get a copy of the tax return for the following reasons: 1) the responsible parents are deceased; 2) it is not possible to contact the responsible parents because the parents are on a current prolonged absence from the United States and are inaccessible; 3) the responsible parents' address is unknown; or 4) the responsible parents are physically or mentally incapacitated.

In these cases, the student must submit one of the alternate forms of documentation listed under "Alternate Documentation" on page 31. (The student would be eligible to file a Special Condition Application if the death of the responsible parent, or both parents, occurred after filing of the original application.)

b. A Tax Return Has Not Been Filed Because IRS Has Granted An Extension. A taxpayer can automatically be granted a 4-month extension (up to August 15) to file the tax return from the April 15 deadline date by submitting a written request or an IRS Form 4868 to IRS. If the taxpayer needs an additional extension beyond August 15, the taxpayer must again request this extension from IRS. IRS will respond to the second request, either granting the new extension or denying the extension. A taxpayer is seldom granted an extension of more than a total of 6 months from the April 15 deadline date.

Since IRS will respond to all requests for extensions beyond August 15, the student in this case must submit a statement from IRS that the extension has been granted. If the taxpayer has not exceeded the 4-month extension, the student must submit either a copy of the written request made to IRS or a copy of the IRS Form 4868 submitted to IRS. The student must also submit one of the alternate forms of documentation listed under "Alternate Documentation."

The student must submit a copy of the 1040, 1040A or 1040EZ as soon as it becomes available. You should use the financial information from the alternate documentation until that time. Once you receive the completed tax return, you must use the financial information from it to verify the required data items on the SAR and make any corrections necessary (and adjust the award as appropriate).

c. The IRS Cannot Locate the Tax Return. If a person requests a copy of his/her tax return and IRS cannot locate it, IRS will normally send the person a listing of information from the tax return. The listing is acceptable for validation purposes if it includes adjusted gross income and U.S. income tax paid. If you wish to have an actual photocopy of the tax return, tell the student to submit a second request to IRS 90 days after the date of the original request. If IRS does not send a listing, you may use one of the alternate documents, but the student must submit an IRS photocopy or listing as soon as one becomes available.

Alternate Documentation

You may use alternate documents only when the tax return cannot be obtained for one of the reasons listed above. Alternate documentation includes: W-2 forms from which adjusted gross income can be estimated; a statement from someone other than the filer, such as an accountant, lawyer, or other qualified person knowledgeable about the financial situation who certifies the probable amounts of adjusted gross income and U.S. tax paid. As a last resort, you may accept a statement from the student's parent or the student, certifying the source of the earned income, the amount, and the reason why no other alternate documentation is available.

If you are satisfied with the validity of the documentation, you may complete validation of this SAR data element. Payment may not be released to the student until the tax return or an acceptable alternative is provided except as stated on page 71.

Income Was Earned in a Foreign Country

If the 1984 adjusted gross income reported on the SAR was earned abroad, and a U.S. Income Tax Return was not filed, you should ask the student to obtain the tax return filed in the country in which the income was earned. The tax paid to the central government of a foreign country is considered tax paid for Pell Grant purposes and must be reported in Item 28 of the SAR. Income and tax figures must be converted to U.S. dollar figures based on the rate of exchange on the date the student applied for a Pell Grant.

If a foreign income tax return was filed, but a copy cannot be obtained, a statement certifying the amount of income from the dependent student's parent or the independent student is sufficient. If the dependent student's parent is still overseas and cannot provide such a statement and there is no other knowledgeable source within this country who can verify the amount, the dependent applicant may sign a statement attesting to his/her parent's 1984 income.

Foreign Earned Income Tax Exclusion

Form 2555 is a form which allows certain U.S. citizens and residents living in foreign countries to deduct some excessive foreign living expenses or to exclude a limited amount of income received for personal services rendered abroad. Check lines 39 and 46 of Form 2555 to determine whether the amount excluded must be reported in Item 36 of the SAR. If the amount is reported on line 46 of the form, the amount is not included in Item 36. If the amount is reported on line 39 of the form, this amount must be included in Item 36.

In cases where both a U.S. tax return and a foreign tax return have been filed and the U.S. tax return reports only the foreign income exclusion from line 39 of Form 2555, you should not use the information from the U.S. income tax return for Pell Grant purposes. Rather, the comparable adjusted gross income and taxes paid from the foreign tax return should be used to complete the application form or to correct the SAR.

Exclusion of Financial Aid Money

The money received by a student as "financial aid" should not be included as income on the SAR. When reducing the amount of income to exclude the amount of financial aid received by the student, the corresponding amount of tax paid, if any, must also be excluded.

VALIDATION ITEM: UNTAXED INCOME AND BENEFITS WHICH INCLUDES: MARRIED COUPLE DEDUCTION, SOCIAL SECURITY BENEFITS, OTHER UNTAXED INCOME AND BENEFITS, AND VA EDUCATIONAL BENEFITS

VALIDATION ITEM: MARRIED COUPLE DEDUCTION -- SAR ITEM 29

Beginning in the 1985-86 award year, the amount of the "Deduction for a married couple when both work," as reported on the IRS Form 1040 or 1040A is included as a separate line item on the SAR and referred to as "Married Couple Deduction."

Required Documentation for Married Couple Deduction

To verify the Married Couple Deduction you must collect:

- o A copy of the IRS Form 1040 or 1040A.

OR

- o A copy of the IRS Schedule W.

Required Validation of the Married Couple Deduction

Validation of this item is required for:

- o All eligible Pell Grant applicants who submit a flagged SAR.

OR

- o Eligible Pell Grant applicants who submit a non-flagged SAR if the institution has conflicting documentation on file.

Information About the Married Couple Deduction for the Divorced, Separated, or Widowed Parent or Student

If the student or the parents filed a joint income tax return but report their marital status as either divorced, separated, or widowed on a flagged SAR not resulting from the filing of a Special Condition Application, one-half of the married couple dedcution from the tax return (or Schedule W) must be included as income in SAR Item 29 (independent student or dependent student's parent) or in Item 42 (dependent student).

VALIDATION ITEM: SOCIAL SECURITY BENEFITS -- SAR ITEMS 34 AND 42

In 1981 Congress amended the Social Security law and made significant changes to the student benefits program. The changes eliminated the Social Security educational benefits for students attending postsecondary educational institutions. The educational benefits were "phased-out" over a 3 year period. All educational benefits were terminated in May 1984. The 1984-85 application collected the last of the phased-out educational benefits, and these benefits have been eliminated from the 1985-86 application and the SAR. However, untaxed Social Security benefits, other than educational benefits, are collected on the 1985-86 application and the SAR.

Documentation for Untaxed Social Security Benefits for All Students

To verify base year untaxed non-educational security benefits, you must collect:

- Documentation from the Social Security Administration showing the total amount of benefits received in 1984.

OR

- The 1984 IRS 1040 tax return, line 21a, and the Social Security Form 1099. You should note that Form 1099 may not accurately reflect benefits received because of various additions and subtractions. You should use Form 1099 only when the accuracy of the total amount of benefits received is not questionable. Use of the 1040 and Form 1099 is at your option.

Required Validation

Validation of untaxed Social Security Benefits is required:

- When a comment requesting validation of social security benefits appears in the Eligibility Letter on the SAR of:
  - flagged eligible Pell Grant students
  - flagged non-eligible Pell Grant students and you receive the ineligible SARs

OR

- When a comment is not present but the school has conflicting documentation on file.

Validation of the Dependent Student's Parent'(s) Benefits -- SAR Item 34

This item includes the total amount of the base year untaxed social security benefits received by the parent(s) for themselves, the applicant, and the parents' other children. Be sure that any non-educational benefits that the

parents received for the applicant are included in this item. For example, the amount of benefits the parents received for the 17 year old student until (s)he became 18 should be reported in this item.

Validation of the Independent Student's (and Spouse's) Benefits -- SAR Item 34

This item includes the total amount of the base year untaxed non-educational social security benefits received by the student (and spouse), and the benefits received by the student (and spouse) for their children, such as supplemental security income or disability benefits, etc.

Validation Of The Dependent Student's (And Spouse's) Benefits -- SAR Item 42

This item includes the total amount of the base year untaxed non-educational social security benefits received by the student (and spouse) such as supplemental security income or disability benefits, etc.

VALIDATION ITEM: ALL OTHER UNTAXED INCOME AND BENEFITS -- SAR ITEMS 36 AND 42

Students selected for validation must verify all other untaxed income and benefits listed on their aid applications. Untaxed income is included in Item 36 for the dependent student's parents and the independent student (and spouse) and in Item 42 for the dependent student's (and spouse). The dependent student's (and spouse's) untaxed income and benefits must be validated ONLY if the student's (and spouse's) base year income was used in the calculation of the SAI.

Required Documentation For Untaxed Income and Benefits For All Students

To validate the amount of untaxed income and benefits, you must collect:

Tax Filers

- A signed copy of the 1984 IRS Form 1040 or 1040A

OR

- A signed copy of the comparable State income tax return

OR

- A signed copy of the IRS listing

AND

- A signed worksheet (or facsimile) for untaxed income and benefits (Item 36) or appropriate listing for Item 42) from the student aid application. Appendix N, page 108, replicates the student aid application worksheet which you can use to collect the untaxed income and benefits listed in Item 36. Appendix O, page 109, replicates the listing from the student aid application which you can use to collect the untaxed income and benefits listed in Item 42.

Non-Tax Filers

- The signed worksheet (or facsimile) for untaxed income and benefits (Item 36) or appropriate listing (Item 42) from the student aid application.

And, for Tax Filers and Non-tax Filers

- If the school determines that it has reason to doubt the data supplied by the student, the school must require source documentation such as a statement from the agency supplying the untaxed benefits, unless such a statement would not be applicable or would be unavailable.

For example, a student may list an amount of welfare benefits that is questionable. The school requests that the student provide source documentation from the welfare agency. After repeated attempts by the student to get documentation from the agency, the school may determine that the required information is not available. The school should, however, question the student (and parents) to try to determine the correct amount of benefits.

Even though the amounts reported as untaxed income on the tax return and the amounts reported for the same items on the worksheet should correspond, sometimes they will not. If they do not, the amounts reported as untaxed income from the tax return take priority over the amounts of untaxed income reported for the same items on the worksheet (or facsimile). For example, if you obtain Schedule D to determine the amount of the untaxed portion of the capital gain distribution listed on line 13 of the 1040 and determine that the untaxed amount is $500, you would use the $500 as untaxed income versus any amount reported on the worksheets (or facsimiles), as the untaxed amount of the capital gain distribution. Items you can determine from the tax return are validated from the tax return. The worksheet allows you to validate items not reported on the tax return such as child support, or to reconfirm zero untaxed income reported on the SAR.

Conflicting Documentation on the 1040 or the 1040A

The Student Assistance General Provisions, section 668.16(f) require schools to develop an adequate system to verify the consistency of the information they receive from different sources with respect to a student's application for financial aid under Title IV programs. This is to ensure that financial aid monies are received only by those students for whom the programs were intended. All students selected for validation are required to submit a copy of their own or their parent's tax return or both, and once you receive this document you must resolve any conflicting information reported on it and the SAR. Listed below are the line references form the tax return forms which will assist you in validating those items we have defined as "conflicting items" from the tax return. The amount of untaxed income for these items must be included in SAR Item 36 for the dependent student's parents and the independent student (and spouse) and in SAR Item 42 for the dependent student (and spouse). Other items, such as those listed on pages 48 and 49, are good indications that errors are present but are not defined as conflicting for the 1985-86 award year.

Items from the 1984 Tax Return -- Line References

- Dividends Exclusion

  Line 9b, 1040
  Line 8b, 1040A

- Capital Gains (Reported on Either Line 13 or Line 14 of the 1040 but Not Both)

  Line 13, 1040

  If an amount is reported on line 13 of the 1040, this is an indication that there may be an untaxed portion of the capital gain. Check Schedule D, line 22. The amount reported on line 22 must also be reported as untaxed income.

  Line 14, 1040

  If the amount is reported on line 14 of the 1040, use the calculation below to determine the amount of untaxed income to be reported:

  The difference between the amounts on line 14 and the total capital gains distributions used to calculate line 14 must be included as untaxed income. To determine this amount divide line 14 by 0.4 and then subtract line 14 from the answer; or multiply the amount on line 14 by 150 percent.

- Other Pensions and Annuities (Excluding Rollovers)

  Lines 17a and b, 1040

  The difference between 17a and 17b must be included as untaxed income unless the amount on 17a is a "rollover" to another pension plan. This may be noted on line 17a or documentated in other ways.

- Unemployment Compensation

  Lines 20a and 20b, 1040

  The difference between 20a and 20b must be included as as untaxed income.

  Lines 9a and 9b, 1040A

  The difference between 9a and 9b must be included as untaxed income.

- Earned Income Credit -- see Appendix L, page 105

  Line 59 minus line 50, 1040
  Line 24b minus line 23, 1040A

- Dividend Reinvestment Exclusion

  Schedule B, line 8, 1040

- Foreign Income Exclusion

  Line 22, 1040
  Form 2555, line 39

VALIDATION ITEM: VETERANS EDUCATIONAL BENEFITS -- SAR ITEMS 55 AND 56

Veterans Educational Benefits for All Students

Items 55 and 56 will be highlighted if the student reported receiving VA educational benefits for a number of months (Item 55) but has not reported the amount of expected benefits to be received (Item 56). Students reporting a negative amount or an amount less than half-time benefits in Item 56 will be rejected.

Because one-half of the VA educational benefits are used in the calculation of the student's SAI, it is important that the information in Items 55 and 56 be reported correctly. If one-half of the difference between what the student reported and the total amount of the validated VA educational benefits falls outside of the tolerances, the SAR must be reprocessed before payment can be made. (See page 61 for additional information regarding tolerances.)

Requirements Set by the Veterans Administration

For payment of VA educational benefits to eligible students, the Veterans Administration requires that schools must certify the enrollment status of eligible students at the beginning of each academic year, and every time a student makes any changes to the initial certification, the schools may certify these changes to the Veterans Administration within 30 days from the time the change occurred.

Requirements Set by the Student Assistance General Provisions and the Pell Grant Program Regulations

Section 668.16(f) of the Student Assistance General Provisions requires that schools develop an adequate system to verify the consistency of the information they receive from different sources with respect to a student's application for financial aid under Title IV programs.

The Pell Grant regulations state that if a school has documents which indicate that the information used to calculate the student's expected family contribution might be inaccurate, it may not pay a Pell Grant until the student corrects the error or verifies the data.

Validation of VA Educational Benefits

You are required to validate VA educational benefits:

- For all students for whom you certify enrollment status, even if the student has not been selected for validation.
- Only once, prior to the student's first Pell Grant disbursement for the award year at the school.

Other Requirements

- If you have no knowledge that the student has applied for VA benefits until after the first disbursement had been made, you must validate this item before you can make the next disbursement.

- If a transfer student submits an SAR that does not show an amount for VA educational benefits and you know that the student is receiving VA benefits, you must determine an amount to be reported on the SAR (at the same time you certify the enrollment status to the Veterans Administration) before disbursement can be made.

Other Information

- Transfer students who have already received their first Pell Grant payment and who have reported an amount of VA educational benefits on their SARs, do not need to have the VA educational benefits again validated by you before receiving their Pell Grant award payments at your school unless you choose to do so.

- Once the VA educational benefits have been validated by you, you will not be required to update these benefits even if the VA law changes during the award year.

- To determine a monthly amount of benefits to be reported when the student receives different amounts of VA educational benefits, average the monthly amounts received during the award year. For example, if a student received $188 for 5 months and $283 for 4 months, the monthly benefits would be reported as $230 for the amount per month, for 9 months.

Required Documentation for VA Educational Benefits for All Students

To validate VA educational benefits, you must collect:

- A copy of the student's award letter from the Veterans Administration.

  The award letter shows the amount to be received each month based on enrollment status, family size, and the period for which the amount will be received (e.g., $376 per month from September 1, 1985 to May 31, 1986. In this case, the student would be receiving $3384 for the year).

OR

- A statement from the institution's veterans office specifying the latest monthly amount being received by the student and the number of months for which these benefits will be received.

OR

- The VA table issued by the Veterans Administration.

Types of Veterans Benefits

The authorizing legislation for the Pell Grant Program defines VA educational benefits as only those benefits under the G.I. Bill and the Dependent Educational Assistance Programs (Chapter 34 and 35 of Title 38). Amounts received under these programs should be reported in Item 56 of the 1985-86 SAR. The number of months that the student will receive these benefits during the academic year should be reported in Item 55. Only the student's benefits are to be reported here. If the student receives additional monies because (s)he is married and/or has dependents, the actual amount (s)he receives must be reported. Veterans educational benefits received by other family members should never be reported. For a single person, half-time benefits are $188 per month and full-time benefits are $376 per month.

One of the most common errors in the reporting of Veterans benefits is the reporting of Death Pension or Dependency and Indemnity Compensation benefits as Veterans educational benefits. Since the monthly amount a student receives under these programs is under $188, this item will be highlighted for students who checked VA educational benefits and reported less than half-time benefits. Although the money a student receives under these programs is paid to the student while (s)he is attending a college, these funds are not considered VA educational benefits for Pell Grant purposes.

Students who receive a Death Pension (which means that the veterans's death was not service related) should not report these benefits as educational benefits in Item 56 of the SAR. Rather, the benefits are considered untaxed income and should be reported for the base year in either Item 36, Other Untaxed Income, or Item 42, Student/Spouse Untaxed Income (see reporting guide on page 43). A student is eligible for these benefits up to age 18, or until 23 if (s)he is attending a VA-approved school.

Dependency And Indemnity Compensation (DIC) is a program available to the children of veterans whose deaths were service related. DIC benefits are reported in the same way as Death Pension benefits, in either Item 36 or 42 on the SAR.

NOTE: At age 18, a student at a VA-approved school who is eligible for DIC has the option of converting to the Dependents Educational Assistance Program (DEA, Chapter 35). If a student does (or will) receive DEA benefits during the award period, those benefits must be reported as VA educational benefits Item 56. The amount reported in Item 56 should be greater than $188 per month.

SECTION 156 BENEFITS

Section 156 benefits are those benefits that were eliminated by recent Social Security laws (Omnibus Budget Reconciliation Act of 1981) but were reinstated by the Veterans Administration (Section 156 of Public Law 97-377). Specifically, the Social Security law eliminated benefits that were formerly payable to a child who was between the ages of 18 and 22 and who was attending a postsecondary school full time. Public Law 97-377 restored Social Security benefits to the surviving spouse or child of a veteran who:

1. died on active duty before August 13, 1981; or

2. died from a disability incurred or aggravated in service before August 13, 1981.

(The Section 156 benefits are sometimes referred to as the "Quayle Amendment.")

Although the Section 156 benefits are former Social Security benefits, they are administered by the Veterans Administration and are considered VA benefits.

The amount of money received by the surviving spouse for his/her children, ages 16 and 17, must be reported as untaxed income in SAR Item 36 or SAR Item 42, as applicable.

The Institutional Training or the Vocational, or Technical Training Educational Vocational Rehabilitation Benefits should never be reported on the SAR because they are considered financial aid.

GUIDE FOR REPORTING DIC AND DEATH PENSION BENEFITS

If the student received a benefit check in his/her name	and is dependent,	total benefits received in 1984 should be reported under Student/Spouse Untaxed Income in SAR Item 42.
If the student's parent received a benefit check	and the student is dependent	the total benefits received in 1984 should be reported under Other Untaxed Income in SAR Item 36.
If the student's parent received a benefit check for the student's sibling	and the student is dependent,	the total benefits received in 1984 should be reported under Other Untaxed Income in SAR Item 36.
If the student received a benefit check in his/her name	and is independent,	the total benefits received in 1984 should be reported under Other Untaxed Income in SAR Item 36.
If the student's parent received a benefit check	and the student is independent,	the benefit should not be reported.
If the student's sibling received a benefit check in the sibling's name.		the benefits should not be reported.

1985-86 SCHEDULE OF VETERANS EDUCATIONAL BENEFITS
(Monthly Amounts)

Enrollment Status	No Dependents	One Dependent	Two Dependents	Amount Added for Each Additional Dependent
Full-time	$376	$448	$510	$32
3/4-time	$283	$336	$338	$24
1/2-time	$188	$224	$255	$17

Validation Suggestions and Reminders for All Untaxed Income and Benefits

1. Tax filers frequently have untaxed income. If your school keypunches data from the tax return, be sure to enter the items that may contain untaxed income (see pages 37 and 48), to compare to Item 36, as well as to Items 26 through 30.

2. If the marital status is divorced or separated, be sure to ask if the applicant or parent receives child support or alimony.

3. Check to see that military personnel reported any housing allowance subsidy in this item.

4. Some Social Security statements will show an amount deducted for medicare. Be sure this deduction is included in Item 34 of the Student Aid Report.

5. Veterans Rehabilitation Benefits should be reported as untaxed income, although Vocational Rehabilitation Benefits that are received as "educational" benefits (received only while attending school) are not to be reported as untaxed income.

6. In situations where the parent's or student's monetary obligations i.e., rent or mortgage payments, car payments, utilities tuition etc., are paid by a friend or relative, the value of these payments must be reported as untaxed income. If the student's reported income is low, ask how these basic maintenance expenses were met.

CHAPTER II -- VALIDATION OF SARs RESULTING FROM SPECIAL CONDITION APPLICATION

This Chapter discusses procedures relating to the data items you validate on a flagged Special Condition SAR.

Required Validation Items

For all eligible Pell Grant flagged SARs resulting from the filing of a Special Condition Application, you must validate the following items:

- Household size.
- Number enrolled in postsecondary educational institutions.
- Independent student status.
- VA educational benefits.
- Dependent student's (and spouse's) base year AGI, U.S. tax paid, and untaxed income and benefits (if used to calculate the student's SAI).

In cases where a student has already completed the validation process on a flagged SAR prior to filing the Special Condition Application you must:

- Review the information on the SAR resulting from the filing of the Special Condition Application to make sure that the student has not made changes.
- If the items requiring validation have been changed, you must again validate the items according to the procedures outlined in this Handbook.

Documentation For Flagged SARs Resulting From the Filing of a Special Condition Application

You must use the same documentation to validate these items as you would for flagged SARs not resulting from a Special Condition Application. You will find the required documentation for:

- Household size on page 17.
- Number enrolled in postsecondary educational institutions on page 17.
- Independent student status on page 11.
- VA educational benefits on page 39.

- o Dependent student's (and spouse's) AGI and U.S. tax paid on page 23.
- o Dependent student's (and spouse's) untaxed income and benefits on page 36.

Validation Suggestions and Reminders for Special Condition Filers

1. Require students who file a Special Condition application for two or more consecutive years to verify the reason for filing the Special Condition Application for each year.

2. Special Condition filers who had earned income in 1984 may receive untaxed income in 1985; specifically, unemployment compensation, AFDC, welfare, workman's compensation.

3. If the reason for filing the Special Condition Application was loss of employment, have the student verify the amount earned before losing his/her job. Also, have the student explain the basis for the earnings estimate for the rest of the year. Have the student change the estimate if it is faulty or unreasonable.

4. If the reason for filing was death of a parent/spouse, be sure the income estimate includes any expected pension benefits. Also check to see if life insurance or other death benefits were received or if the parents established a trust fund.

5. Collect and review the independent student's base year tax return and the parent's base year tax return since the tax return may be useful in validating other items on the Special Condition SAR. The following items could be validated according to the procedures outlined in this Handbook.

   - o Business Value on page 58.
   - o Home Value on page 54.
   - o Cash, Savings and Checking on page 53.
   - o Other Real Estate/Investments on page 56.

In addition, a review of the base year income and family situation may provide clues about whether the reason for filing the Special Conditon Application was appropriate and about, whether the 1985 income was properly estimated.

CHAPTER III -- VALIDATION OF DISCRETIONARY ITEMS

This Chapter provides guidelines and suggest documentation you may wish to obtain for validating discretionary items.

In addition to mandatory validation that involves only students selected by the Department and only certain required data elements, you may also pursue discretionary validation. As in previous years, while you must validate the required items, you should be aware that section 668.16(f) still applies to any documents collected. Therefore, you must resolve any discrepancies between any discretionary validation on the SAR and documentation collected for validating the required items or any other documentation. This requirement is also applicable to the other Title IV programs in addition to the Pell Grant Program. Furthermore, section 690.77(b) of the Pell Grant Program regulations requires an institution to validate any information on the SAR used in calculating the students expected family contribution if the institution believes that the information is inaccurate.

TYPES OF DISCRETIONARY VALIDATION

There are two types of discretionary validation:

1. Student Selected for Validation by the School

   Students selected for validation by the school need to provide documentation only for those data elements that you wish to verify. Use the tolerances and payment procedures outlined in this Handbook for the data element(s) you are validating. When you select a student for validation of any data element, you may withhold payment only if the student refuses to provide documentation or if you already have documentation conflicting with the information reported on the SAR for that data element.

2. Student Selected for Validation by the Department of Education

   When a student is selected for validation by the Department of Education, you must validate the item(s) as described in Chapters I and II of this Handbook. In addition, you may choose to validate one or more of the discretionary data elements. You have full discretion to determine which students must provide documentation for any of the discretionary data elements. You should request that a student provide documentation particularly when any information on the SAR appears inconsistent with previously validated data elements or the documentation used to validate them, or when a comment about any of these items appears on the SAR or when items on the SAR are highlighted. You may withhold payment from a selected student for whom you validate discretionary data elements until (s)he provides documentation for the discretionary data elements.

   While these items are discretionary items for validation under section 690.77 of the Pell Grant regulations, we consider any discrepancies between these discretionary items on the return and the application to be conflicting documentation under section 668.16(f) of the Student Assistance General Provisions, and you must resolve these

discrepancies. Other items on the tax return, in addition to the required items and these discretionary items, may relate to information on the student's application, but these other items do not provide information that is directly related to the information reported on the student's application. We, therefore, do not consider section 668.16(f) to be applicable to these items. For information on other discretionary items found on page 2 of the tax return, see Appendix L, page 105.

In validating discretionary data elements, you should keep in mind that, under certain circumstances, asking a student to obtain certain forms of documentation may cause him/her undue hardship. For example, expecting a student to pay a real estate firm $100 to appraise his/her parents' home would be unreasonable.

TAX RETURN GUIDE FOR VALIDATION OF DISCRETIONARY ITEMS

The tax return can be a helpful tool in determining whether to validate certain discretionary data items, even though the tax return is not always an indicator that an amount reported on the tax return would show a corresponding amount on the SAR. For instance, if line 12 of the 1040 shows an amount reported for business income, you should check the SAR (Items 49 and 50) to see if an amount has also been reported as business assets or business debts. However, this does not automatically mean a business value should be reported on the SAR. Sometimes there is no business value because of the nature of the business, or its sale or bankruptcy. Listed below is a summary of line references from the first page of the tax return (1040/1040A/1040EZ) and the corresponding boxes on the SAR. This summary will give you clues on using the tax return in verifying discretionary data items.

1984 Tax Return Item	SAR Item Number
Dividends	
Line 9c 1040 Line 8c 1040A	47 and 48
Interest Income	
Line 8 1040 Line 7 1040A Line 2 1040EZ	44, 47 and 48
Business Income (or Loss)	
Line 12 1040	49 and 50

Rents, Royalties, Partnerships, Estates, Trusts, etc.	
Line 18 1040	47, 48, 49 and 50
Farm Income (or Loss)	
Line 19 1040	49 and 50

DISCRETIONARY ITEMS

The following sections discuss discretionary items you may choose to validate.

Bachelor's Degree -- SAR Item 9

If a student has transferred from another institution, you may ask him/her to obtain a statement or academic transcript from that institution showing that (s)he did not receive a Bachelor's degree there. If a student earned a degree in a foreign country, you must determine whether the degree is the equivalent of a U.S. Bachelor's degree before disbursing payment.

To determine whether a degree earned in a foreign country is equivalent to a U.S. Bachelor's degree, you should refer to the World Education Series, published by the American Association of Collegiate Registrars and Admissions Officers (AACRAO), which is a series of booklets describing the educational systems of most countries in the world. If the admissions office at your school has this collection, you may determine whether a student who has a degree from a foreign institution is eligible as long as your decision is consistent with the standards set by AACRAO. If you need assistance, you may contact the Pell Grant Policy Section on (202) 472-4300.

Income Earned From Work by Father/Mother or by Independent Student/Spouse -- SAR Items 32 and 33

The amount to be reported in these items is the figure on line 6 of the 1040A or the sum of the figures on lines 7, 12, and 19 of the 1040, or the figure on line 1 of the 1040EZ. If both people had earned income, make sure the individual incomes are reported. A positive earned income must be reported as a positive amount and a negative earned income (because of a farm or business loss) must be reported as a negative amount. The amounts of reported earned income are important because they determine the size of the employment expense offset used in the eligibility calculation.

The employment expense offset (50 percent of the lesser income not to exceed $1500) is an allowance provided in the Pell Grant formula for the additional expenses encountered by single parent families and families in which both parents work. If the income earned from work has been reported incorrectly

and this is the only error on the SAR, the SAR may not need to be reprocessed. However, because the tax filing status (Item 25) determines whether the adjusted gross income or the income earned from work is used in the calculation of the SAI, you must use the following guidelines in determining whether the SAR needs to be submitted for reprocessing:

o Tax Filers

Two Income Family: If each of the incomes are $3000 or greater as erroneously reported and the verified amounts still are $3000 or greater, the SAR does not need to be reprocessed.

Single Parent Family: If the income is $3000 or greater as erroneously reported and the amount of verified earnings is $3000 or greater, the SAR does not need to be reprocessed.

In all instances where the verified earnings of the lesser income of the two income family or the verified earnings of the single parent is $2999 or less, the SAR must be reprocessed unless the school wishes to calculate the SAI to see if the award would change (Tolerance Option I).

o Non-tax Filers

When no tax return has been filed, the total of the incomes reported in Items 32 and 33 is used in the calculation of the SAI.

Two Income Family: If the verified amounts of the combined incomes are within a tolerance option, the SAR does not need to be reprocessed.

Single Parent Family: If the verified amount of the income is within a tolerance option, the SAR does not need to be reprocessed.

If you have questions about the need for reprocessing any SARs having errors in these items, call (202) 472-6200 for assistance.

Earnings from Work Not Reported on a Tax Return -- SAR Items 32 and 33

If you are validating the amount of earnings from work not reported on a tax return by either the independent student (and spouse) or the parents of the dependent student, you may request a copy of the W-2 form or a statement of earnings from the employer to substantiate the amount reported. If this income was earned from a source from which it is impossible to obtain the supporting documentation (i.e., odd jobs, babysitting, etc.) you may wish to request a signed statement either from the independent student (and spouse) or from the parents of the dependent student. This statement should list the amount and sources of the income and explain the reason that the supporting documentation cannot be obtained.

AFDC/ADC -- SAR Item 35

The amount that should be reported for AFDC/ADC is the total amount received in 1984 by the dependent student's parent(s) or the independent student (and spouse). If the dependent student received AFDC/ADC benefits for his/her own children, this amount should be reported in Item 42 (Student/Spouse Untaxed Income) on the SAR.

To validate this item, you may request that the student obtain a statement from the disbursing agency of total benefits received.

Low Reported Income

If the reported income is so low you doubt the family could have lived on the income they reported, you should attempt to verify total income. Total income is the sum of Adjusted Gross Income, or Income Earned from Work if a tax return was not filed, Social Security Benefits, Aid to Families with Dependent Children, and Other Untaxed Income.

The following types of questions may be helpful in eliciting a reasonable explanation from the student:

1. What is the monthly cost of housing and utilities?

2. From what income source is this paid?

3. What is the approximate monthly cost of food?

4. What is the monthly value of food stamps (if received)?

5. From what income source are food costs paid?

6. From what income source are car payments made?

Often, when a student is asked to explain specifically the household's means of support, the student discovers that (s)he has forgotten to list some source of income. If the student lists his/her source of income as financial aid, this may be verifiable at your school. You should not count financial aid as income for Pell Grant purposes.

Medical/Dental -- SAR Item 37

To verify the amounts claimed for Medical/Dental Expenses, a student should provide documentation showing that:

1. Payments were made by the dependent student's parent or by the independent student (and spouse);

2. The payments were made during 1984;

3. The payments were made for goods or services related to health care or treatment;

4. The total amount paid; and

5. The expenses were not paid by insurance.

A copy of Form 1040 Schedule A is usually sufficient to fulfill these requirements, and the amount on line 3 (minus any insurance premiums) should appear in SAR Item 37. If Schedule A is unavailable, the student may use cancelled checks to verify the total amount paid, since they would show the names of the persons making and receiving payment, as well as the dates and amounts of payment. If a student submits a copy of IRS Schedule A showing one amount and cancelled checks totaling a different amount, you should probably use the amount shown on the Schedule A to verify medical and dental expenses.

The student may also provide an itemized statement with the dates, amounts, and names of those paid, accompanied by an affirmation that these payments were made by the dependent student's parent or by the independent student (and spouse). You may decide it is not necessary for the statement to have a specific description of the treatment received, but only the name of the party receiving payments claimed as Medical/Dental Expenses so that the likelihood of the payment for health care or treatment can be evaluated. If the itemized statement includes transportation costs, make sure that the costs are allowable under IRS' guidelines for claiming such costs for medical treatment and that they are reasonable based on the medical and dental expenses claimed.

When a student uses cancelled checks or an itemized statement to verify this item, you may wish to ask for a statement signed by him/her and a parent (if dependent) stating that none of the expenses were paid by insurance.

If a divorced, separated, or widowed student or parent filed a joint tax return, (s)he may, for Pell Grant purposes, claim the entire amount of medical/dental expenses reported on Schedule A of the 1040 if it can be determined that the amount reported could have been paid by the student or parent.

Elmentary/Junior High/Senior High School Tuition -- SAR Item 38

This item should include only amounts paid in 1984 for dependent children other than the student as tuition for attending elementary, junior high, and senior high schools. Any fees paid for the use of athletic, laboratory, or health care facilities or any other services rendered by the school, such as room and board, do not count for this data item. An independent student may not include any tuition paid for a spouse to attend school. Amounts paid for day care for preschool children may not be included.

To verify this amount you may request that the student submit tuition bills o statements from the school(s) or copies of cancelled checks showing the amounts paid in 1984.

Dependent Student/Spouse Savings and Assets -- SAR Item 43

Only dependent students should report an amount in Item 43. The amount must include the student's (and spouse's) cash and amounts in savings and checking accounts on the date (s)he applied for a Pell Grant. It should also include the net value of any home, business, farm, other real estate, or investments owned by the student and spouse. It should not include any amounts received through student financial aid.

To verify this item, determine the type of asset(s) and use the appropriate procedures described below.

Cash and Savings -- SAR Item 44

For a dependent student, Item 44 must include the total amounts of the parent's cash, savings and checking accounts at the time of application for the Pell Grant. For an independent student, Item 44 must include the total amount of the student's and spouse's cash, savings, and checking accounts at the time of the application for the Pell Grant. Amounts received through student financial aid are excluded.

To verify this item, you may use documents such as copies of portions of bank books or bank statements showing the amounts held on the date of application for a Pell Grant. Interest reported on line 7 of Form 1040A, line 8 of Form 1040, or line 2 of Form 1040EZ indicates that the student or parent had savings in 1984 and may still have had savings at the time of application. To estimate the value of savings, you may divide the amount of interest reported on the 1040, 1040A, or 1040EZ by an assumed interest rate or by an interest rate specified by the student. For example, if a student reported $50 of interest on the 1040 or 1040A and you assume an interest rate of 6 percent, the approximate amount of the savings is 50 divided by .06 = $833. Note that such amounts are based on interest received in 1984. The student or parent may have had more or less in savings at the time of Pell Grant application. Also, since these figures are estimates, you may not force the student to report them, but you may use them as guides for evaluating the reasonableness of the amount reported by the student.

Trust Funds as Assets/Income

In most cases the student or parent must report a trust fund whether or not they have access to it. (The only exception would be a case in which the trust was restricted by court order to a specific non-educational use.) If the grantor of a trust has voluntarily placed restrictions on the use of the trust, then the trust would be reported in the same manner as a trust that did not have any specific restrictions. The way in which the trust must be reported varies according to whether the student (or dependent student's parent) receives the interest income or the principal of the trust, or both:

- Interest only. If a student (or parent) receives only the interest from the trust, the interest received in the base year (1984 for the 1985-86 application) must be reported as income. In addition, the person who receives the interest must report an asset value for the interest he/she will receive in the future. The "present value" of the interest the person will receive while the trust exists can usually be calculated by the trust officer. This value represents the amount a third person would be willing to pay in order to receive the interest income that the student (or parent) will receive from the trust in the future.

- Principal only. A student (or parent) who will receive only the trust principal must report the present value of his/her right to the trust principal as an asset. For example, if the principal is $10,000 and reverts to a dependent student's parent when the trust ends in ten years, but the student is receiving the interest earned from the trust, the present value of the parent's right to the principal of the trust must be reported as a parental asset. The present value of the principal is the amount that a third person would pay at the present time for the right to receive the principal ten years from now (basically, the amount that one would have to deposit now to receive $10,000 in ten years, including accumulated interest). Again, the present value can be calculated by the trust officer.

- Both Principal and Interest. If a student (or parent) receives both the interest and the principal from the trust, the present value of both interest and the principal would be reported, as described above. If the trust is set up in such a manner that the interest accumulates within the trust until the trust ends, the beneficiary should report an an asset the present value of the funds (both interest and principal) that he/she is expected to receive when the trust ends.

Home Value -- SAR Item 45

Home value is the current market value of the home of an independent student's or a dependent student's parent's home; that is, the amount for which the home could have been sold at the time the application was signed. It is not the assessed, insured, or taxed value or the original purchase price. Renters should write in "0" for this question.

Several documents may be used to verify home value: an appraisal, tax assessment notice, mortgage statement, statement from real estate office or hall of records, or promissory note for a loan for which the home was used as a guide in determining the market value.

The method of verifying this item depends on the type of document used:

- Recent appraisals are the most accurate verifiers of home value because they give a good estimate of the home's current market value. Unfortunately, they are generally expensive and not routinely or easily available. Therefore, you will usually have to settle for some other form of documentation.

- Tax assessment notices are probably the most common and readily accessible documents for verifying home value. However, these notices must be used with caution as the information will vary from State to State. In some states a percentage of the market value will be assessed. In other states, a percentage of a value (placed on the property by the State for tax purposes) is assessed usually at a lower rate than the true market value. If you wish to use the tax assessment notices, you must know exactly what the assessment rate is for the State in which the property is located and how you should use the values from the assessment notices to find the true market value of the property.

If you use another document, such as an outdated appraisal or statement from a real estate office or hall of records, a copy of the mortgage, or a copy of a promissory note for a loan for which the home was used as collateral, you may arrive at an estimate of the current market value by multiplying the value given on the document by the Housing Index Multiplier for the year of the valuation.

HOUSING INDEX MULTIPLIER

Year of Valuation	Housing Index Multiplier*	Year of Valuation	Housing Index Multiplier*
1930	9.64	1967	3.42
1935	11.78	1968	3.21
1940	9.64	1969	2.95
1945	6.63	1970	2.86
1950	4.42	1971	2.71
1955	3.78	1972	2.59
1958	3.66	1973	2.35
1959	3.66	1974	2.16
1960	3.66	1975	1.96
1961	3.66	1976	1.82
1962	3.66	1977	1.63
1963	3.66	1978	1.43
1964	3.66	1979	1.26
1965	3.66	1980	1.16
1966	3.53	1981	1.08
		1982	1.06
		1983	1.04
		1984 to present	1.00

*Source: National Income and Product Accounts of the United States, U.S. Department of Commerce, Bureau of Economic Analysis.

For example, if a student's home was bought in 1960 for $10,000, its current value would be approximately 3.66 X $10,000 = $36,600. Please note that the Housing Index Multiplier is based on the national average. Market values vary from region to region. Since the value obtained is an estimate, you may not require the student to report that exact amount, but you should use it as a guide for evaluating the reasonableness of the home value claimed by the student. If the student claims that the home value is much lower than that calculated with the Housing Index Multiplier, (s)he should provide a reasonable explanation for the home's low market value, e.g., fire or termite damage.

Home Debt -- SAR Item 46

The amount owed on the home should include all unpaid mortages, as well as unpaid home improvement loans and any other loans for which the home is used for collateral. A "home" is a house, mobile home, condominium, etc. which has been purchased.

The following may be used as verifiers of home debt: a monthly mortgage statement, or a statement from the mortgage company, or an accountant or lawyer. All loans that are secured by the home are included in home debt. Personal or consumer loans or any debts that do not use the home as collateral are not to be included in the home debt. Interest on home loans is not to be included as part of the debt.

Other Real Estate/Investment Value -- SAR Item 47

The amount that should be reported in Item 47 is the total market value (the amount for which the asset could have been sold at the time of application) of the student's or parent's investments (including trust funds, stocks, bonds, and other securities) and the market value of other real estate (except the family's home, farm, and business).

You may use the same documents to verify other real estate as you use to validate home value. However, in some cases, you use the Commercial Property Multiplier rather than the Housing Index Multiplier. If the property is residential (house, apartment building, etc.), use the Housing Index Multiplier that appears previously. Otherwise use the Commercial Property Multiplier.

COMMERCIAL PROPERTY MULTIPLIER

Year of Valuation	Commercial Property Multiplier*	Year of Valuation	Commercial Property Multiplier*
1930	10.70	1967	3.46
1935	13.38	1968	3.24
1940	11.71	1969	2.97
1945	8.23	1970	2.74
1950	5.09	1971	2.55
1955	4.28	1972	2.43
1958	4.00	1973	2.28
1959	4.00	1974	1.92
1960	4.00	1975	1.75
1961	4.12	1976	1.75
1962	4.00	1977	1.65
1963	4.00	1978	1.48
1964	3.82	1979	1.31
1965	3.82	1980	1.17
1966	3.56	1981	1.10
		1982	1.07
		1983	1.04
		1984 to present	1.00

*Source: National Income and Product Accounts of the United States, U.S. Department of Commerce, Bureau of Economic Analysis.

As with home value, the multipliers should be used as guides in evaluating the reasonableness of the real estate value claimed by the student. If the student claims that the value is much lower than that calculated with the multipliers, (s)he should provide a reasonable explanation for the real estate's low market value.

Reported on Schedule B, line 1 (of the U.S. Income Tax Return 1040) is the interest portion of any payments received from an individual based on a take-back mortgage or other seller financing that resulted from the sale of the home or other property. Therefore, if there is an amount reported on this line, then there probably should be some asset value reported in SAR Item 47. There should be no debt value reported on this asset. For example, the seller sells his/her house for $60,000 and has a take-back mortgage of $20,000, then (s)he has an asset value of $20,000 for the first year of the mortgage. This asset will decrease each year depending on how much of the principal is paid back each year. If the seller banks or otherwise invests the principal, then this amount must also be reported in SAR Item 44.

A less accurate verifier of real estate value is the 1040. Income shown on 1040, line 18 may indicate that the family owned rental property or oil, gas, or mineral property. Schedule E will give details about that income. Part I of Schedule E should show a description of the property and lines 3a and 3b, columns A-C, will show the amount of rent or royalty received; Part V, if completed, or Form 4562, if completed, will show the type of property and its location in column a, the date the property was acquired in column b, and the purchase price in column c. Multiply the purchase price by the Housing Index Multiplier or Commercial Property Multiplier for the year the property was acquired to obtain an estimate of the current market value.

For investments, the best verifiers are statements of value from brokers, accountants, or lawyers or copies of promissory notes for loans for which the investments were used as collateral.

The 1040A or 1040 and Schedules B and D may also provide you with some information about investments. Dividend income reported on line 8b of Form 1040A or line 9a of Form 1040 indicates that the student or parent had investments in 1984 and may still have had them at the time of application for a Pell Grant. Part II of 1040 Schedule B lists the amount and source of the dividends. Neither source tells you the value of the investments, but they provide a clue that the family had investments. The 1040 Schedule D lists investments which were sold in 1984. Schedule D may substantiate a student's claim that, although dividends were received in 1984, the family no longer had investments at the time of the Pell Grant application. Schedule E, Parts II and III can indicate investments or other assets because of partnerships, trusts, etc.

Other Real Estate/Investments Debts -- SAR Item 48

The amount in Item 48 must be the total debt on the investments and real estate reported in Item 47. Verifiers of real estate debt are a copy of the mortgage or a statement from a mortgage company, accountant, or lawyer. To verify an investment debt, use a statement from a broker, accountant, or lawyer.

Business Value -- SAR Item 49

Business value for Pell Grant purposes is the market value of the student's or parent's business, including the value of land, buildings, machinery, equipment, etc., at the time the application was signed. If the student or parent is not the sole owner, the amount to be reported is only the amount of his/her share of the business market value.

The value of land and buildings may be verified with a statement from a real estate office, accountant, or lawyer. The total value of the business may be verified with a statement from an accountant or lawyer, or a copy of a promissory note for a loan for which the business was used as collateral. Purchase agreements and inventory assessments may also be helpful in verifying

business value. The value of land and buildings should be multiplied by the Commercial Property Multiplier, page 57, for the year of the document showing the value. Since the multiplier gives an estimated value, it should be used as a guide for evaluating the reasonableness of the reported value, not as the exact value of the business.

Form 1040 may also provide information concerning the business. An amount reported on line 12 of the 1040 indicates that business earnings were present in 1984. Schedule C and Forms 4562 and 4797 can give details about the business. Part III, line 7 of Schedule C shows the inventory value at the end of 1984. Form 4562 shows the depreciation claimed for tax purposes since the time of purchase. Form 4797 shows supplemental gains or losses from sales or exchange of goods made during 1984.

Business Debt -- SAR Item 50

The amount to be reported is the unpaid mortgage and related debts for which the business assets were used as collateral. If the student or parent is not the sole owner, (s)he must report only his/her share of the debt. To verify business debt, you may use a copy of the mortgage, a statement from the mortgage company, accountant, or lawyer or copies of notes for loans against the business. Interest on business debts will appear on 1040 Schedule C, Part II, line 17. If a student claims a large business debt but reports little or no interest on line 18, you may want to investigate the matter further.

Farm Value -- SAR Item 49

Farm value for Pell Grant purposes is the market value of the student's or parent's farm, including the value of land, buildings, machinery, equipment, animals, etc., as of the time the application was signed. The value of the home should not be included here but in Item 45. If the student or parent is not the sole owner, (s)he must include only his/her share of the farm market value.

The value of land and buildings may be verified with a statement from a real estate office, accountant, or lawyer. The total value of the farm may be verified with a statement from an accountant or lawyer or a copy of a promissory note for a loan for which the farm was used as collateral. Purchase agreements and inventory assessments are also useful in verifying farm value.

The 1040 Schedule F gives some information about farm value. Part III shows the purchase price, date of purchase, and depreciation allowable by IRS for buildings, improvements, cars, trucks, machinery, and other permanent farm equipment. Part III does not include livestock bought or raised for resale. Nor does it include home, land, or other property in the inventory. Even though these are not included in Part III, their value must be shown on the SAR. Part II, line 53 shows the amount of the depreciation of the farm, buildings, and equipment claimed for the year (as reported on Form 4562).

Farm Debt -- SAR Item 50

The amount to be reported is the unpaid mortgage and related debts for which the farm assets were used as collateral. If the student or parent is not the sole owner, (s)he must report only his/her share of the debt. To verify this item, you may get a copy of the mortgage, a statement from the mortgage company, accountant, or lawyer, or copies of notes for loans against the farm. The 1040 Schedule F, Part II, line 34, will show the interest paid on the mortgage and other farm loans in 1984. If the student reports a large debt but paid little or no interest in 1984, you may want to investigate the matter further.

CHAPTER IV -- OPTIONS, DATES AND WITHHOLDING PAYMENTS

This Chapter discusses procedures related to tolerance options, deadline dates, and withholding payment of Pell Grants.

TOLERANCE OPTIONS

(The tolerance options are identical to last year's procedures and to the April 1985 Dear Colleague Letter (P-85-11). This section has been rewritten in hopes of making it easier to understand.)

The objective of validation is to ensure that students provide accurate information. In the process of validation, however, discrepancies may sometimes be discovered between amounts reported on the SAR and amounts reported on tax returns and other documentation. The difference between the two amounts may not always cause the student to receive more than the original award. Requiring these students to submit a reprocessed SAR that lists the correct amounts would inconvenience schools and students without providing a savings for the government. For this reason, we have established three tolerance options. Reprocessing is not necessary if you can use one of these options.

THREE TOLERANCE OPTIONS

- Option I refers to cases where the recalculated SAI does not result in a lower payment.
- Option II refers to minimal dollar discrepancies.
- Option III refers to zero SAIs

Option I -- Recalculation of the SAI

The school calculated a new SAI using the documented information and finds that the scheduled award stays the same or decreases.

Schools using Option I must:

1. Use the corrected information.
2. Calculate the new SAI according to the applicable worksheet in the 1985-86 Pell Grant Formula Book. There are different variations of the eligibility formula for different groups of dependent and independent students. Dependency, household size, and ownership of business or farm assets determine which variation should be applied in calculating the SAI. In calculating the SAI it is important to realize that the SAR items in the formula used for tax filers are not the same as those used for non-tax filers. See page 66, for the SAR item numbers appropriate to each circumstance.

3. Document the calculation of the new SAI so that the steps followed can be checked for accuracy.

4. Use the 1985-86 "Pell Grant Payment Schedule" to determine the amount of the student's scheduled award according to the SAI calculated by the school.

5. Determine whether the new scheduled award is the same or greater than that due the student according to the SAI on the SAR submitted for validation.

Under Option I you may recalculate the SAI and find that reprocessing may not be necessary even if a student corrects information which increases or decreases Household Size (Item 22), Number in College (Item 23), or any number of dollar items in any combination.

Note: If you discover an error in your recalculation after making a payment under Option I, you are liable for the overpayment and you must reimburse the Pell Grant account. However, you may adjust subsequent disbursements in the same payment period to make up for the overpayment.

Option II -- Minimal Dollar Discrepancies

The school finds that on validating each dollar item, no discrepancy between the originally reported amount and the correct amount exceeds $300 for dependent students ($200 for independent students) and the sum of all discrepancies does not exceed $600 for dependent students ($400 for independent students).

The specific dollar discrepancies listed below refer to data items that on correction might cause the SAI to increase and the award to decrease:

A. The amount shown on the SAR is less than that shown by the documentation.

Income from Form 1040/1040A/1040EZ (Item 27)

Father/Student Income Earned From Work (Item 32) (non tax filer only)

Mother/Spouse Income Earned From Work (Item 33 (non tax filer only)

Social Security Benefits (Item 34)

AFDC/ADC (Item 35)

Other Untaxed Income (Item 36)

(Dependent) Student/Spouse Taxable Income (Item 40)

(Dependent) Student/Spouse Untaxed Income (Item 42)

(Dependent) Student/Spouse Savings and Assets (Item 43)

(Parent's/Student's) Cash and Savings (Item 44)

Home Value (Item 45)

Other Real Estate/Investment Value (Item 47)

Business/Farm Value (Item 49)

VA Educational Benefits (Items 55 and 56)

B. The amount shown on the SAR is greater than that shown by the documentation.

U.S. Income Tax Paid (Item 28)

Married Couple Deduction (Item 29)

Medical/Dental Expenses (Item 37)

Elementary/Junior High/Senior High Tuition (Item 38)

Home Debt (Item 46)

Other Real Estate/Investment Debt (Item 48)

Business/Farm Debt (Item 50)

For example, if the amount of the dependent applicant's Social Security benefits increase by $250 or the amount of tax paid decreases by $250, reprocessing of the SAR is not required before payment.

To use Option II, there must be no change in dependency status and there must be no decrease in household size or number in college.

For DEPENDENT students at least one of the following statements must also be true to use Option II.

1) The sum of the correct amounts for Item 40 and Item 42 minus Item 41 is less than $3,300 and the student is single.

2) The sum of the correct amounts for Item 40 and Item 42 minus Item 41 is less than $4,900 and the student is married.

3) The amounts in Item 40, Item 41, and Item 42 are correct as shown.

4) The calculation of the SAI was made using the student's (and spouse's) expected income during the 1985-86 academic year. [To determine if the student's (and spouse's) expected income was used, refer to the SC Code at the bottom of the SAR (Part 2, Side one). The Code will be "E" if estimated income was used.]

For example, if the applicant's dependency status, household size, and number in college are correct and the correct sum of the single dependent student's income is $2,500, reprocessing of the SAR is not required.

Information on Options I and II

Reprocessing of an SAR is not mandatory in cases where use of Option I or II shows that the correct dollar amount results, or may result, in a decreased SAI and an increased award. In these cases, the decision whether or not to reprocess is left to the student. If a student chooses to reprocess the SAR and receive a higher award, the reprocessed SAR must be submitted before the student's last day of enrollment.

Option III - Zero SAI

Option III refers to cases where the SAI equals zero and the SAI remains at zero after using correct information. In these cases, schools may use the Zero SAI Charts included in this section to determine whether the SAI based on the correct information will also equal zero instead of doing a complete recalculation.

Charts B and C rely on a simplified version of the Pell Grant eligibility formula that compares income offsets with household size and Effective Family Income (EFI). If after calculating the correct EFI you find that it is less than the amount corresponding to the correct household size, the student's SAI will remain zero and the amount of the scheduled award will remain the same. With this result the student does not need to submit a reprocessed SAR.

If the EFI calculated from the documented amounts exceeds the EFI which matches the household size as shown on Chart B or C, or if the student's circumstances require "NO" as an answer to any of the applicable questions that are in the "Requirements for Using Zero SAI Charts," you may still use Option I or II.

Requirements for Using Zero SAI Charts

Schools cannot apply this procedure to all students with an original SAI equaling zero, even though the EFI may be less than the amount shown for the correct household size on the appropriate chart.

Use the Zero SAI Charts only if the answer to each of the following applicable questions is YES. If all such answers are YES, follow the directions listed in Chart A.

ALL Students:

1. Is the original SAI 0?
2. Is the dependency status unchanged?

DEPENDENT Students:

1. a) Is the income of the single dependent student $3,300 or less?
   b) Is the income of the married dependent student $4,900 or less?

*2. Are the correct net parental home assets $25,000 or less?
*3. Are the correct net parental farm and business assets $50,000 or less?
*4. Is the correct net value of all other parental assets $25,000 or less?
*5. Are the student's (and spouse's) total savings and net assets equal to 0?

INDEPENDENT Students with Dependents:

*1. Are the correct net home assets $25,000 or less?
*2. Are the correct net farm and business assets $50,000 or less?
*3. Is the correct net value of all other assets $25,000 or less?

INDEPENDENT Student Without Dependents:

*1. Is the correct net value of all assets equal to 0?

*If the negative discretionary income is equal to or greater than the net assets after applying the allowable offset, then the Zero SAI Charts can be used. Using the appropriate Chart (B or C), negative discretionary income can be derived by subtracting the validated EFI from the family size offset associated with the correct household size. For example, in a two income family where the correct household size is 5, the validated EFI must be less than $12,901. If the EFI is $12,001, the difference between these two figures, $900, is the negative discretionary income.

If the answer to any of the applicable questions above is NO, do not use the Zero Charts.

ZERO SAI CHART A

Step 1 -- Calculate validated EFI

Calculate the Effective Family Income using validated figures and the appropriate formula:

For tax filers: EFI = Item 27 + Item 29 + Item 34 + Item 35 + Item 36 + 1/2 (Item 55 x Item 56*) - Item 28

For non-tax filers: EFI = Item 32 + Item 33 + Item 34 + Item 35 + Item 36 + 1/2 (Item 55 x Item 56*)

*One-half of the total amount of the verified VA educational benefits

Step 2 -- Chart B or Chart C

If the student is eligible for the full $1500 employment expense offset, refer to Chart B. Otherwise, use Chart C.

A dependent student is eligible for the full $1500 employment expense offset only if both parents were employed and each earned at least $3000 in 1984, or the head of the household is not married and earned at least $3000 during 1984.

An unmarried independent student is eligible for the full $1500 employment expense offset only if the student has at least one dependent other than himself/herself and earned at least $3000 in 1984.

A married independent student is eligible for the full $1500 employment expense offset only if both the student and spouse were employed and each earned at least $3000 during 1984.

Step 3 -- Household Size

On the appropriate Chart (B or C), locate the number in the left column that corresponds to the correct household size.

Step 4 -- Validated SAI = 0

If the validated EFI (Step 1) is less than the applicable EFI on Chart B or C the recalculated SAI would be 0, and the SAR does not need to be reprocessed.

If the validated EFI (Step 1) is more than the applicable EFI on Chart B or C then you may either apply Option I or II.

If the recalculated SAI will cause the award to stay the same or increase, or if the amount of the discrepancy for each validated data item meets the definition in Option II, then the SAR does not need to be reprocessed.

ZERO SAI - CHART B

Use This Chart Only if Student Is Eligible for Full Employment Expense Offset

If the correct Household Size is:	the validated EFI must be LESS than:
2	7,701
3	9,001
4	11,101
5	12,901
6	14,301
7	15,901
8	17,501
9	19,101
10	20,701
11	22,301
12	23,901
13	25,501

ZERO SAI - CHART C

Use This Chart if Student Is NOT Eligible for Full Employment Offset

If the correct Household Size is:	the validated EFI must be LESS than:
1	4,901
2	6,201
3	7,501
4	9,601
5	11,401
6	12,801
7	14,401
8	16,001
9	17,601
10	19,201
11	20,801
12	22,401
13	24,001

CORRECTIONS DEADLINE DATE FOR ALL STUDENTS AND PAYMENT EXTENSION DEADLINE DATE FOR VALIDATED STUDENTS

CORRECTION DEADLINE DATE FOR ALL STUDENTS

- The correction deadline date is the last date all students can submit an SAR with corrections to the Pell Grant Processing Center for reprocessing.
- The deadline date for receipt at the Pell Grant Processing Center for SARs with corrections that need to be reprocessed is July 30, 1986.
- There is no extension of this date for validated students.
- All students may submit corrected SARs requiring reprocessing directly to the Processing Center; however, only validated students can take advantage of the payment extension deadline.
- Unless the student can receive payment it is not necessary to have the SAR reprocessed.
- Corrected SARs must be mailed to:

  Federal Student Aid Programs
  P.O. Box 4152
  Iowa City, Iowa 52244

- No documents or letters should be sent with the SARs to the processsor.

60-DAY PAYMENT EXTENSION DEADLINE DATE

The 60-day payment extension deadline date allows payment to validated students who are unable to complete validation requirements within the normal payment deadline date under the following conditions:

- The student must have submitted an SAR with an eligible SAI to the institution by his/her last day of enrollment or June 30, 1986, whichever comes first.
- The student was enrolled at least half-time when (s)he submitted the SAR.
- The student was selected for validation by ED or by the school.
- The student was unable to complete the validation process while enrolled.
- Any SAR accepted for payment by the school from the student after his/her last day of enrollment or June 30, 1986, whichever comes first, must be as a result of validation.

SCHOOL'S RESPONSIBILITY

- Schools are responsible for informing those selected students who are eligible for the 60-day extension of the steps necessary to complete validation.

- Schools should make every effort to help students complete the validation process.

- Schools MUST apply either the Zero SAI tolerance or Tolerance Option II, whenever possible.

- Schools may at their own discretion use Tolerance Option I.

STUDENT'S RESPONSIBILITY

- Students may not increase their eligibility during the 60-day extension. (See section 690.61 and section 690.77 of the Pell Grant regulations.)

  For example, a student chosen for validation submits a flagged SAR with an aid index of 1000. If after making any necessary corrections, the corrected reprocessed SAR has an aid index of 50, you must still base the payment on the aid index of 1000. If after making any necessary corrections the corrected reprocessed SAR has an aid index of 1500, you must base the payment on the aid index of 1500.

- Students forfeit all right to payment after the 60-day deadline.

- Students must repay any funds already disbursed if they miss the deadline.

- Even if the information on the SAR selected for validation was correct as initially submitted to the school, the student must provide all necessary documentation and must complete the validation within 60 days of the last day of enrollment in order to receive payment.

- Students are responsible for completion of all validation requirements within sufficient time to allow for corrections to be made and for resubmitting the corrected SAR to the school within the 60-day deadline.

- If a student changes his/her address or requests a duplicate copy of the reprocessed SAR, the action requested must be completed and the SAR must be presented to the school within the 60-day deadline.

NO EXCEPTIONS

There will be no exceptions made for:

- Student errors.

OR

- Institutional errors.

OR

- Mailing problems incurred through the U.S. Postal Service.

DEADLINE FOR SUBMISSION OF AN ED FORM 304 AND VALIDATED SARS

A validated student's ED Form 304, Part 3 of the validated SAR, and, if applicable, a copy of the student's financial aid transcript, must be received at the ADS payment processing site by:

- July 15, 1986, if the student completed validation by June 15, 1986;

OR

- 30 days after the student has completed validation but no later than September 30, 1986, if the student completed validation after June 15, 1986.

DEADLINE FOR SUBMISSION OF AN ED FORM 304-1 FOR VALIDATED STUDENTS

If you complete an ED Form 304-1 for a validated student it must be received at the ADS payment processing site by:

- August 26, 1986, if the student completed validation by June 15, 1986;

OR

- 30 days after the student has completed validation but no later than September 30, 1986, if the student completed validation after June 15, 1986.

WITHHOLDING PAYMENT OF THE PELL GRANT AWARD

When a school selects a student for validation, the student must submit the requested documentation promptly. If the student shows no effort to submit the necessary materials within 30 days after being informed of selection, you may interpret this as a refusal. Once a student has refused to provide the requested documentation, you should withhold further payments for the 1985-86

academic year until the student fully complies with your request. If the student does not comply within the 60-day extension for 1985-86 (see page 68), any amounts the student has already received must be fully repaid. If the student fails to agree to a repayment plan, refuses to make repayment, or discontinues repayment, you should refer the matter to the Department of Education according to the procedures for collection of Pell Grant overpayments discussed on page 76.

Procedures regarding withholding a Pell Grant award may vary according to the reason the student was selected for validation. The following paragraphs describe the circumstances when withholding payment is appropriate:

A. Students flagged for validation on the SAR

You may exercise, on a case-by-case basis, two payment options. Be very cautious in using Option 2 because it may result in financial liability on the part of the student and the institution.

- Option 1: Require the student to submit all documentation and to have all corrections exceeding the tolerance processed before disbursement.

  This option is certainly the more desirable option because it encourages students to submit documents and correct any inaccurate information.

  When you choose to validate discretionary data items, you may decide on a case by case basis whether to withhold payment from students until they completed validation of discretionary items. If there is a discrepancy which may affect eligibility in a data item not required for validation, you may not make payment until the student has resolved the discrepancy.

- Option 2: Require no documentation before disbursing up to one-half the amount of the award for the academic year, based on the SAI shown on the SAR under review.

  We do not recommend that you use this option until you have verified dependency status because of the greater likelihood that the student will become ineligible.

  The following stipulations apply to the use of Option 2:

  1. ADS schools may not use this option.

  2. You may not choose this option if you have documents on file that conflict with the information on the SAR.

  3. You may not disburse the second half of the award until the student submits the documents and, if necessary, the reprocessed SAR.

4. If the student fails to submit the documents and, if necessary, the reprocessed SAR before the end of the extension period, the institution must restore to the Pell Grant fund the full amount paid to the student.

5. If after validation the student submits a valid reprocessed SAR with an SAI higher than the one on which payment was based, the institution must adjust subsequent disbursements to make up any overpayment due to corrections resulting from information on the required validation documents. If the overpayment cannot be made up by adjusting these disbursements, the institution must restore the overpayment.

B. Students not flagged on SAR but the school has conflicting documents

This occurs when the school has written documentation (e.g., 1040, need analysis forms, VA Certification of Enrollment) that conflicts with information appearing on the SAR (see Federal Register, December 31, 1980, section 668.16(f) for a full discussion of the school's responsibilities). In these cases, you must withhold payment until the discrepancy is resolved. If you receive the conflicting information after an initial payment has been made, no further payments may be issued until the discrepancy is resolved.

C. The school routinely requests documents to verify Pell Grant student data regardless of whether there is a known discrepancy

You may not withhold payment unless the student refuses to comply with any reasonable request for documentation*. Once the student provides documentation, you may not withhold payment unless there is a discrepancy between the documentation submitted by the student and data on the SAR. In this case, you may make no further payment until you resolve the discrepancy.

D. You have reasonable grounds to believe that misreporting has taken place but have no documentation

In these instances you may not initially withhold payment.

However, if:

- The student refuses to provide documentation* or if the documentation provided confirms a discrepancy, you must withhold further payments until you resolve the discrepancy.

*Unless the dependency status of the independent student is being verified because either you have conflicting information on file or the independent student has been selected by the Department, and if all other validation requirements are completed, payment may not be withheld from the independent student who cannot obtain either the signed statement from his/her parents or the parents tax return. However, we suggest that you follow the procedures outlined on page 51, to determine if the applicant had sufficient income to support self and dependents.

- The student submits documentation, but you suspect the accuracy of the documentation (e.g., an explanatory statement is signed, but you have conflicting information from a reliable third party) and the student continues to claim the documentation is accurate, you should make payment to the student and refer the case to the Department of Education for resolution. (See page 74 of this Handbook.)

CHAPTER V — REFERRALS AND REPORTING SUSPECTED FRAUD

This Chapter discusses the method for referring validation cases, overpayment cases, or collection cases to the Department. It also covers procedures for reporting suspected fraud.

REFERRAL TO THE DEPARTMENT OF EDUCATION -- VALIDATION CASES

When you have reason to believe that the information on the student's application is incorrect and you have made a determined, but unsuccessful, effort to resolve the problems, you may refer the case to the Department. Such cases may arise when the documents submitted by the student are unacceptable because their validity is questionable or there is an unresolved discrepancy between the current year data and the prior year information on file at the school. In each case, you must have followed the procedures outlined in this Handbook and have given the student sufficient time to comply with the validation request before referring the case.

A case should not be referred to the Department if the student refuses to provide documents and comply with the validation requests. If the student refuses to provide documentation, inform him/her that no payment of the Pell Grant will be disbursed until the validation is completed. You may also wish to withhold NDSL or SEOG payments, or delay certifying the GSL application until the validation is complete. If the student has not complied by the end of the 60-day extension period, (s)he forfeits the award for the entire year. If the student received any payments for the award period, (s)he must repay that amount. Do not refer these cases to us.

If there is information on file at the school which conflicts with documents provided or the data reported on the SAR, you must withhold payment of all Title IV funds until the discrepancy is resolved. If the discrepancy cannot be resolved and the student is requesting further payment, inform the student that the case is being referred to the Department for resolution without making further payment. If the student provides documentation and its validity is questionable, refer the case to the Student Validation Branch or follow the procedures at the end of this section for reporting suspected fraud.

If there is no conflicting information on file at the institution and the student has provided all documents required by the Department, you must disburse payment to the student and refer the case to the Department for further follow up. If the student provides documentation and its validity is questionable, you may pay the student, refer the case as soon as possible to the Department. If you are unsure whether you must pay the student before referring the case or if the student has questions concerning his/her responsibilities to provide documents or correct information, call (202) 245-2724.

Schools will not be allowed to make adjustments to their Pell Grant accounts for any underpayments discovered after December 31. This may affect some of those cases referred to the Department where the student has only received parital payment or no payment. The Department will make exceptions for payment in these cases if validation is not completed in time for the school to meet the December 31 deadline.

All information should be forwarded to:

Student Validation Branch
U.S. Department of Education
P.O. Box 23185
Washington, D.C. 20026
ATTN: Institutional Referrals

If the student disagrees with any of your decisions regarding validation and wishes to have that decision reconsidered, you should refer the case to the Student Validation Branch. A student may initiate a referral by calling or writing the Student Validation Branch, which will then contact the school for further information, or by requesting that you send the pertinent information to this office.

After referring a case, you should notify the Department of Education if:

1. The student's address changes;

2. The student drops out of school;

3. The student enrolls in another school;

4. The student does not wish to proceed with the verification; or

5. The student resolves the verification at the school.

REFERRAL OF A PRIOR YEAR SAR

The school may elect to validate a student for a previous year if a discrepancy comes to light when the student submits documents during the validation of the current year SAR. Such cases should not be referred to the Department of Education unless you are unable to resolve the difference with the students.

The item(s) in question should be reviewed on the SAR for each applicable prior year a Pell Grant was received. If corrections are necessary, recalculate the Student's SAI to determine any overpayment.

Each student should be given at least 60 days to respond to your requests for prior year information. Inform the student that failure to submit the information within the required time will result in having to repay all funds received. You should attempt to recover these funds. If you are unable to collect the funds, you may refer the student to the Department of Education as an overpayment case.

Institutions will not be permitted to adjust their Pell Grant accounts after December 31 for any award year prior to 1984-85 unless it is discovered that the student was overpaid. If, after validating a prior year SAR, the student is in a repayment status, the school must contact an area desk representative at (202) 245-1271 so that an adjustment can be made.

REFERRAL OF PELL GRANT OVERPAYMENTS

The Department of Education will attempt to recover Pell Grant overpayments if such overpayments were not the result of an institutional error and the institution has made a reasonable effort on its own to collect the overpayment. If an institution can collect an overpayment from a student, we strongly urge it to do so.

Before referring a case to the Department of Education you should be certain that the case warrants collection action. There are three basic types of overpayment cases:

1. The student was ineligible for a Pell Grant because, for example, (s)he was not a citizen, or already had a Bachelor's degree.

2. The student dropped out of school or changed enrollment status during a payment period.

3. The student's recalculated SAI is higher than the previous one, based on information submitted after payment had been made.

DO NOT refer cases involving overpayments of less than $100. These cases will be returned to the institution. The students will still owe their overpayment and will continue to be ineligible for Federal funds at the institution where the overpayment occurred.

A. Determining The Overpayment

When a student drops out of school or changes enrollment status, you must separately the amount of Pell Grant funds credited to the student's tui- calculate the amount of the overpayment. You must also consider tion account and the amount received in hand for living expenses and books. If a refund is due for tuition paid, part of that refund must be returned by the school to its Title IV program accounts. Section 668.21 of the General Provisions regulations outlines the formula for calculating this amount. If the student is not due a tuition refund, (s)he does not have to repay any portion of the Pell Grant funds credited for tuition if educational costs were incurred by the student while enrolled.

If the student has received a cash disbursement, you must determine the amount of that disbursement that was used for non-institutional expenses related to education (food, rent, etc.) and books while the student was actively enrolled. The balance of the disbursement is the amount the student owes to the Title IV programs. There are no specific rules for this determination, but following is an example of some reasonable methods for making this determination:

A full-time student enrolls in September 1985. The student aid index is 0, and the cost of education is $1800 ($1500 for room, board, books, supplies and miscellaneous expenses and $300 for tuition). The award is $463 for the first semester. From this amount $150 is credited to tuition and $313 is given the student for living expenses and books. The student drops out of school at the end of November. Under the school's refund policy, no tuition refund is due.

Thus, the school keeps the $150 for tuition and the student owes no refund on this portion of the Pell Grant. The student used $66 of the $313 cash disbursement for books leaving $247 for living expenses for the four-month semester. The institution might determine that one-fourth of the $247 ($61.75) constitutes an overpayment, OR the institution might determine that the student owes one-fourth of the $313 ($78.25). However, the institution might determine that all of the $313 was used to cover books and living expenses while the student was in school and decide that (s)he owes nothing. Section 668.21 of the General Provisions regulations outlines the formula for calculating the amount of overpayment to be returned to the Title IV programs. The overpayment must be multiplied by the following fraction:

$$\frac{\text{total amount of Title IV aid (exclusive of work earnings and GSL and Plus Loans) awarded for the payment period.}}{\text{total amount of aid (exclusive of work earnings and GSL and PLUS Loans) awarded for the payment period.}}$$

In this case, providing that Pell was the only Title IV aid awarded and that the student received no other aid and that $61.75 was the overpayment:

$$\frac{463}{463}$$

$61.75 X $463 = $61.75 (to be returned to Title IV (Pell)

If a student's enrollment status changes within a payment period, the institution may at its discretion recalculate the student's award.

B. Reporting The Overpayment

In reporting the overpayment case to the Department of Education, the institution must provide the following information:

1. Student Information

Name
Address (temporary and permanent)
Social Security Number
Telephone Number

2. Parent/Spouse Information

Name
Address
Social Security Number
Telephone Number

3. Disbursements and Repayments

Expected Disbursement based on valid SAR $_____
Amount credited to tuition account $_____
Amount disbursed in hand $_____
Total amount owed (less costs incurred) $_____

4. Other Information

Academic Year of Overpayment
Student Educational Costs
Enrollment Status
Student Aid Index
Institutional Contact
Institutional Telephone Number
Detailed Explanation of Reason for Overpayment

The above information should be forwarded to:

Student Validation Branch
P.O. Box 23185
Washington, D.C. 20026
ATTN: COLLECTIONS

C. Institutional Responsibility

Once a case has been referred to the Department of Education, the school has no further responsibility other than to continue to withhold further Title IV payments to the student.

In all cases where overpayments (other than those due to institutional error as indicated in section 690.75 of the Pell Grant Regulations) have been established, you must withhold payment until the student's financial obligations have been met as described in Item D4 on page 79. Also remember, once a student is in an overpayment status, you may, at your own option, choose not to release his/her financial aid transcript to another school until after the overpayment has been paid.

D. Department of Education's Responsibility

Upon receipt of the collection referral, the following action will be taken by the Department of Education:

1. All reports will be screened to determine if sufficient information has been provided to initiate the collection activity. Referral without complete information will be returned to the institution.

2. Once sufficient information has been obtained, the Student Validation Branch will send you a letter indicating that recovery activities will be initiated by the collections office in Washington, D.C.

3. When the case arrives at the collection office, that office will set up a repayment schedule and send a letter to the student, which provides the dates and amounts of installments to be made each month, current balance, and the place to which payments should be sent.

4. Upon repayment of the full Pell Grant overpayment the collections office will send you a letter releasing payment of Pell Grant funds for the remaining payment period(s) and any other Title IV funds for the entire academic year.

E. Student Repayments

If a student who has been referred to the Department of Education notifies you that he/she wishes to make repayment, you may accept the payment, notify the collections office (address listed below), and contact an area desk representative at (202) 245-1271 so that an adjustment can be made. Otherwise you may send the repayment to the following address:

Department of Education
Pell Collections
Room 3551, ROB-3
Washington, D.C. 20202

If a student who has been referred to the Department of Education for the 1984-85 or 1985-86 award year notifies you that (s)he wishes to make repayment and the payment will be received within the award year, you may accept the payment and notify the collections office at the address above. You should also fill in Item 6 of the Payment Document (Part 3 of the SAR), "Adjustments to amount paid" as a recovery on the appropriate year's Payment Document that you submit to the Department.

If payments are sent to the Department of Education or to the collections office be sure to include the student's full name, social security number, and the name of the school where the overpayment occurred. You should also note that the student was previously referred by your institution. This will ensure proper crediting of the student's account.

best copy available

If a student who has not been referred to the Department of Education wishes to make repayment to the school the amount collected is to be restored to the school's Pell Grant Account and reported as a recovery on an amended Progress Report and Student Validation Roster (prior to 1984-85) for the year in which the overpayment occurred or on the next 1984-85 or 1985-86 Payment Document (Part 3 of the SAR) submitted by the school. For more assistance in this area, you should contact your Area Representative on (202) 245-1271.

REPORTING SUSPECTED FRAUD

Suspected fraud should be reported to the Regional Office of the Inspector General or the HOTLINE of the Department of Education Inspector General, or to the appropriate state or local law enforcement agency. HOTLINE: (202) 755-2770.

Fraud may exist if you suspect:

1. Forged or falsified documents such as Financial Aid Forms, transcripts, or signatures to receive financial aid.

2. False or fictitious names or aliases, addresses or Social Security Numbers (SSNs) to include multiple SSNs.

3. Pattern of misreported information from one year to the next, and/or in each item.

4. Pattern of filing a Special Condition application, i.e., for two consecutive years or more for the same reason, etc.

5. Stolen or fradulently endorsed financial aid checks.

6. Embezzlement of financial aid checks or funds.

7. Kickbacks to receive grants, loans,or work-study jobs.

8. Unreported previous loans or grants, and receipt of concurrent full grants during one year.

APPENDIX A

VALIDATION STATUS CODES

Item 4, Part 3 of the SAR collects the Validation Status Code. On every SAR you submit as a Payment Document you must grid the appropriate Validation Status Code. These codes show that you have followed the validation procedures outlined in this Handbook and allow us to gather information on the effect of validation on awards and on the use of the tolerances. The codes are as follows:

N -- Not Selected - The student was not selected for validation by the Department of Education or by you and you did not validate any item. If you verify data items on an SAR resulting from your own selection, you should use the appropriate validation status code resulting from the validation. This means that if your school conducts 100 percent validation, you would never use the Validation Status Code "N."

Use Validation Status Code N when the only data item on the SAR being validated in the applicant's citizenship status.

A -- Accurate - The student was validated, the SAR was accurate as submitted, and the school paid on that SAR.

W -- W/out Documentation* - The student received 1/2 of his/her Pell Grant without bringing in any or all of the required documentation. If you used this code on the SAR, you must adjust your next Payment Document submitted for that student to reflect the code under which the student was finally awarded.

T -- Tolerance - The student was validated, the SAR was shown to be incorrect as a result of validation, but school paid without requiring the SAR to be reprocessed because the school was able to use either the Zero SAI tolerance option or the appropriate dollar tolerance option. This code also should be used when you pay a student who has been exempted from validation under one of the allowable exemptions as described on pages 3 and 4 of this Handbook.

C -- Calculated - The student was validated, the SAR was shown to be incorrect as a result of validation, but the school paid without requiring the SAR to be reprocessed because the school calculated the SAI and found that the scheduled award stayed the same or increased on the basis of the recalculated SAI.

R -- Reprocessed - The student was validated, the SAR was shown to be incorrect as a result of validation, the SAR was reprocessed for that reason, and the school paid on the reprocessed SAR.

Also use Validation Status Code "R" in the following situations:

- As a result of validation a student has to have the SAR reprocessed. The student erroneously corrected the SAR and submitted it for reprocessing. Although the SAR still contains erroneous information, the errors fall within tolerance options, thus the student can receive payment without again having the SAR reprocessed.

- If the student had the SAR reprocessed on his or her own, perhaps before submitting an SAR to you, use an "R" if you know the SAR was reprocessed and the reprocessing appears to be a result of being selected for validation. If you do not have this knowledge, use whatever validation code is appropriate based on your action on the case.

NOTE: Never use Validation Status Code "R" on an "01" transaction.

* Note To ADS Schools

All students who attend ADS schools must have completed the validation process prior to requesting any payments, because the Department of Education is processing the awards and issuing only final payments. There is no guarantee that the Department will be able to retrieve partial payments paid to students in error if the finalization of validation proves that students received awards to which they were not entitled.

APPENDIX B

VALIDATION TRACKING FLAGS

The following codes and definitions are validation selection reasons. The codes are called validation tracking flags and are found on the bottom of Part 1 (Eligibility Letter) and Part 2 (Information Review Form) of selected SARs in the SAR office use area on the first line and 30th position. An example is shown on the cover of this Handbook by a circle around the validation tracking flag "S." The validation tracking flag is also readily identified as the fourth single letter or number located to the left of the nine digit serial/batch number.

A = Random selection

B = Student changes from ineligible to eligible status and SAI falls within certain range

C = SAI falls within certain range when comparing previous eligible transaction and current eligible transaction

D = SAI falls within certain range when comparing previous ineligible transaction with current ineligible transaction

E = Student on validation hold file

F = Independent student and reported tax paid out of range

G = Independent student and sum of earnings out of range

H = Same dependency status in prior and current year and tax paid out of range

I = Same dependency status in prior and current year and questionable adjusted gross income

J = Same dependency status in prior and current year and questionable untaxed income

K = Same dependency status in prior and current year and questionable change in household size

M = Questionable change in dependency status from prior to current year

N = Apparent discrepancy between adjusted gross income and tax filing status

O* = Dependent students who, on the average, may have a higher error rate than the overall population

Q* = Dependent students who, on the average, may have a higher error rate than the overall population

R* = Dependent students who, on the average, may have a higher error rate than the overall population

S* = Dependent students who, on the average, may have a higher error rate than the overall population

T* = Dependent students who, on the average, may have a higher error rate than the overall population

U* = Dependent students who, on the average, may have a higher error rate than the overall population

X* = Dependent students who, on the average, may have a higher error rate than the overall population

Y = Independent students who, on the average, may have a higher error rate than the overall population

Z = Independent students who, on the average, may have a higher error rate than the overall population

1 = Dependent student's parents' reported tax paid out of range

2 = Dependent student's parents' sum of earnings out of range

3 = Dependent student and conflict between parent's exemptions and household size

4 = Random selection of dependent students for parent's untaxed income and benefits

5 = Independent student and conflict between exemptions and household size

6 = Independent student under age 23 with subsistence income or less

7 = Sum of earnings greater than adjusted gross income

8 = Social Security match shows difference between reported and actual amount falling into specific ranges

9 = Social Security match shows difference between reported and actual amount falling into specific ranges

Blank = Not selected for validation

*Definitions for flags 0 through X are identical. Because these criteria are closely related and all the definitions are general rather than specific, one definition was used for all seven criteria.

APPENDIX C

VALIDATION COMMENTS

1. Dependent student and eligible for a Pell Grant:

   Your application has been selected for review. You must submit to your school a signed copy of your parents' 1984 U.S. Income Tax return or a statement that they did not file a tax return. Other documents will also be requested. Contact your Financial Aid Administrator for further information.

2. Independent student and eligible for a Pell Grant:

   Your application has been selected for review. You must submit to your school a signed copy of your (and your spouse's) 1984 U.S. Income Tax return or a statement that you did not file a tax return. Other documentation will also be requested. Contact your Financial Aid Administrator for further information.

3. Dependent student and ineligible for a Pell Grant:

   Your Financial Aid Office may request documentation to prove that the information on your application is correct before you receive any other Federal student aid. This may include your parents' 1984 U.S. Income Tax return and other documents. If your school requests documentation, you must provide it.

4. Independent student and ineligible for a Pell Grant:

   Your Financial Aid Office may request documentation to prove that the information on your application is correct before you receive any other Federal student aid. This may include your (and your spouse's) 1984 U.S. Income Tax return and other documents. If your school requests documentation, you must provide it.

5. Student changes from Pell Grant eligible to ineligible:

   A previous SAR showed that you were eligible for a Pell Grant. That SAR told you to take documentation to your Financial Aid office to prove the accuracy of the information on your SAR. Although you are not eligible for a Pell Grant, you may be eligible for other Federal student aid, and your school will tell you if you need to provide documentation to get that aid. If your school does request documentation, you must provide it.

6. Student changes from ineligible to Pell Grant eligible:

   Because you are now eligible for a Pell Grant, you must submit a signed copy of your or your parents' 1984 U.S. Income Tax return and other documentation to the Financial Aid Office at your school. Contact your Financial Aid Administrator for further information.

7. Independent student who was dependent on last transaction of prior year and who reported conflicting information:

   You must submit a signed copy of your parents' 1984 U.S Income Tax return(s), Form 1040/1040A/1040EZ, to the Financial Aid Office at your school.

8. A student who must validate Social Security benefits:

   You must provide documents to verify the Social Security benefits reported in item 34.

APPENDIX D

PARENTS

Definition of Parent

For Pell Grant purposes, the term parent means the student's natural mother and/or father, adoptive parent, or a person whom a court has (a) appointed to be the student's legal guardian, (b) directed to support the student with his or her own financial resources, and (c) declared that the legal relationship will continue after June 30, 1986. It does not mean a foster parent or a guardian not appointed by a judge. If the student is a ward of the court, (s)he is not considered to have a parent and should file as an independent student.

If both of the student's parents are living and married to each other, (s)he must answer the three dependency questions about them. If one of the student's parents was dead when (s)he filed his/her application, (s)he must answer the questions about the surviving parent. If both of the student's parents were dead when (s)he filed his/her application and there is no adoptive parent or legal guardian, (s)he is considered independent and must answer "no" to all of the questions.

If the student's parents were divorced or separated when (s)he filed his/her application, (s)he must answer the questions about the "responsible" parent, i.e., the parent (s)he lived with more during the 12 months before the original application was filed. If (s)he did not live with either parent, or lived with each parent an equal number of days, (s)he must answer the questions about the parent who provided more support during the most recent calendar year that the student was supported by the parent. The student will then answer the dependency status questions about that parent. Support means gifts, loans, housing, food, clothes, car, money, medical and dental care, payment of college costs, etc. For more information on the validation for students whose parents are divorced, separated, or widowed, see "Common Problems in Verifying 1984 Adjusted Gross Income and 1984 U.S. Income Tax Paid," page 29.

Note that a student whose parents are divorced or separated may not designate his/her dependency on one parent on the application and on the other parent for validation purposes (unless when completing the application, the student mistakenly counted the parent with whom (s)he had lived less of the time or from whom (s)he had received less support during the 12 months preceding the application date). In such cases, you may wish to obtain further information from the student requesting the specific dates of shared residence or the specific amounts of support received from the parent in order to assure that the student's new designation is correct.

Stepparents

If the student had a stepparent at the time of application, information pertaining to the stepparent must be included if either: (a) the student lived with the stepparent (and parent) for more than six weeks (a total of 42 days) in 1984 or planned to in 1985; or (b) the student received or will receive more than $750 worth of support from the stepparent in 1984 or 1985. Whether the stepparent claimed the student as a tax exemption in 1984 or plans to in 1985 is not relevant in determining if the stepparent's information must be reported. If the responsible parent has married since the time of application, the stepparent's information should not be included.

Divorce or Separation of Parents

If the the student's parents are divorced or separated, the student must answer all the dependency status questions about only one parent. There are several procedures to follow to determine which parent that is.

1. If the student lived with one parent longer than the other during the 12 months preceding the date the student applies, the student answers the dependency status questions about the parent he or she lived with longer.

   For example, a student applies on April 1, 1985. The student must determine which parent she lived with longer from April 1, 1984 through March 31, 1985. The student lived with her mother during April and May of 1984, and then lived with her father during June, July, and August of 1984. She returned to her mother's residence in September 1984 and lived there through March 31, 1985. Since she lived with her mother 9 out of the 12 months preceding the date of application, this student answers the dependency status questions about her mother.

2. If the student did not live with either parent, or lived with each parent an equal number of days, the dependency status questions apply to the parent who provided the greater amount of support during the 12 months preceding application.

   For example, a student lives with his grandmother. The mother pays the student's clothing expenses. The father pays all of the student's medical and dental bills, makes the monthly payments on the student's car, and gives the student $100 a month in cash. In this case, the father is providing the greater amount of support, and the student must answer the dependency questions about him.

3. If the student did not receive support from either parent during the 12 months preceding the date of application, or received equal support from both, the student must go back to the most recent calendar year he or she received parental support and answer the dependency questions about the parent who provided the greater support.

The following examples illustrate how students determine which parent has provided greater support when "the most recent calendar year" is used.

In one case, a student fills out an application on June 1, 1985. For the preceding 12 months (June 1, 1984 through May 31, 1985), the student has lived with her grandparents and has received no support from either parent. However, going back to "the most recent calendar year," the student did live with her divorced mother from January 1, 1984 through May 31, 1984. (The student received no support from her father during that time.) Since the student received greater support from her mother during 1984, the student must answer all the dependency status questions about her mother. Since the student can answer "yes" to at least the first dependency question, she must file as a dependent student.

To vary this example, suppose the same student, although living with her mother from January through May 1984, actually received greater financial support from her father during that time (more than $750). In that case, the student must answer all the dependency questions about her father. This means the student would answer "no" to the first dependency status question: she did not live with the parent who provided the greater amount of support for more than six weeks in 1984 (her father). If her father claims her as a tax exemption, she would answer "yes" to the second dependency question. (If he does not, she answers "no.") The student would answer "yes" to the third dependency question, because her father provided more than $750 in support. Once it has been established which parent provided greater support, all dependency questions are answered about that parent only.

In the preceding examples, it is clear which parent provided the greater amount of support. In some cases, however, the student does not know or is not sure. A student may believe both parents have always provided equal amounts of support. Nevertheless, the student must determine which parent has provided the greater amount, even if the difference is small. It is important to remember that support is not only money the student may receive but also includes housing, clothing, medical expenses, loans or gifts, as well. The student must evaluate all such items in determining amounts of support. In the case above, the student lived with her mother from January through May 1984 but answered the dependency questions about her father because he provided the greater support. If that support consisted solely of a new, expensive car for the student's high school graduation, but the cost of the car exceeded the mother's expenses for the student then the gift of the car constitutes "greater support."

Death of Parent(s)

If the student has been living with both parents and one dies before the student applies for aid, the dependency questions automatically apply to the living parent.

If a student's parents are divorced and the parent from whom the student receives the greater amount of support dies, the dependency status questions apply to the living parent. If the student can answer "yes" to any of those questions for either year (assuming the student is unmarried), he or she is considered a dependent of the living parent.

If both parents die before the student applies, he or she is considered independent and must answer "no" to all the dependency status questions, even if one or more of the answers would normally be "yes." The same is true if the remaining parent upon whom the student is dependent dies. For example, the answer to "Did or will the student live with the parents for more than six weeks (42 days) in 1984? in 1985?" must be "no" for both years, even if the student did live with the parent(s) before their death for more than six weeks during either year.

Note that if a student lives with a parent and stepparent and the parent dies, the student is considered independent and must answer "no" to the questions above, unless the stepparent has adopted the student.

The preceding discussions pertain to the separation, divorce, or death of parent(s) before the student applies. The student should thus be able to determine if he or she is dependent and, if so, the parent to whom the dependency questions apply. This is important because on the application form and the SAR (see "Income and Expense Information) the student must provide income information about that parent. This information determines the student's family financial strength and the student's need for financial aid.

If a student's parents separate, divorce, or die after the student applies, the family's financial circumstances may change for the worse, and the information from the application may no longer be accurate. In certain specific cases, a student may be able to file a "Special Condition Application" to reflect the change in his or her financial situation. The Special Condition Application can also be used to reflect a change in financial strength because of loss of employment or benefits. In those cases, students may be able to fill out a Special Condition Application instead of a regular form.

APPENDIX E

HOUSEHOLD SIZE

Who is Included in Household Size

In the definition of household size, when we use the phrase "half of their support between July 1, 1985 and June 30, 1986," we mean one half of all basic maintenance costs for the entire 12-month period; that is, full support for at least 6 months or half-support for 12 months. This half support test must be met at the time of validation or first submission of the SAR.

Dependent Student

1. The student should always be included.

2. The student's parents should be included as follows:

   a) Parents are married to each other: include both.
   b) Parents are separated or divorced: include only the responsible parent.
   c) Parent is widowed: include the surviving parent.
   d) Parent is remarried: include the stepparent if:

      - the student did or will live with the stepparent (and parent) for more than 6 weeks in 1984 or 1985; or

      - the student did or will receive more than $750 in support from the stepparent in 1984 or 1985; or

      - the stepparent meets the Program's definition of "Other Persons."

      Any time the stepparent meets the Program's definition of "parent," his/her income must also be included.

3. The student's dependent children should always be included.

4. The student's siblings who are attending postsecondary institutions as at least half-time students (or plan to attend during the award year) should be included if they can answer "yes" to any of the three dependency questions.

5. The student's siblings who are NOT attending postsecondary educational schools as at least half-time students (and who do not plan to attend during the award year) should be included if the parents have provided or will provide half of their support between July 1, 1985 and June 30, 1986.

6. *Other Persons should be included only if:

   a) They have received or will have received more than one-half of their support from the student's parents during the 1985-86 award year, AND

   b) At the time the student completed the student aid application, they lived with the student's parents and received more than one-half of their support from the student's parents.

*NOTE: The dependent student's spouse should never be included in the parent's household size even if (s)he meets the definition of other person.

Independent Student

There are five categories of people who can be included in the household size of the independent applicant:

1. The student should always be included.

2. The student's spouse should always be included. (A student who is separated, divorced, or widowed should not include his/her spouse in household size.)

3. The student's dependent children who are attending postsecondary school at at least half-time (or who plan to attend during the award year) should be included if they can answer "yes" to any of the three dependency questions.

4. The student's dependent children who are NOT attending postsecondary school at least half-time (and do not plan to attend during the award year) should be included if the student (and/or spouse) has provided or will provide half of their support between July 1, 1985 and June 30, 1986.

5. Other Persons should be included if:

   a) They have received or will have received more than one-half of their support from the student (and the student's spouse) during the 1985-86 award year, AND

   b) At the time the student completed his or her student aid application, they lived with the student (and spouse) and received more than one-half of their support from the student (and spouse).

APPENDIX F

COOPERATIVE EDUCATION PROGRAMS

In order to determine whether co-op earnings should be reported on the Pell Grant application, a determination must first be made that the student was enrolled in a course of study in which the co-op terms were required by the institution as a part of the program. An institution may, of course, have a program structured in such a way that a student has an option to elect to include co-op terms. If the student elects the program structured to include co-op terms, then the student is considered to be in an official co-op program.

If a student in a cooperative education program has a co-op job that is considered to be financial aid, the income from that job is not reported on an application for a Pell Grant. This policy is based on sections 690.33(g), 690.33a(e), and 690.43(e) of the May 7, 1983 final 1985-86 Family Contribution Schedules. These sections state that the annual adjusted income of the family, student and spouse does not include any student financial assistance.

All income from a co-op job that is not considered to be financial aid must be reported on the application. The following information is provided to clarify when earnings (co-op or otherwise) are to be considered financial aid:

1. It is reasonable to assume that the student would have submitted a financial aid application and that anticipated earnings would appear on the student's financial aid award letter if the co-op job was considered financial aid.

2. The financial aid administrator is required to know of, and take into account, the amount of co-op earnings the student is to receive in determining the student's eligibility for aid from the three campus-based and GSL programs. Thus, in those cases in which a student receives aid from those three programs, anticipated co-op earnings should also appear on the award letter if the student is to be properly informed of how his or her need is to be met.

3. When a student did not receive an award through the financial aid office for the previous award year but did have a co-op job during the base year, there is no objection to a retroactive need analysis to determine the portion of a student's co-op earnings which could have been used to meet that need. However, two points need to be stressed with regard to this. First, the retroactive need analysis would be done at the discretion of the financial aid officer. We do not intend to impose an administrative burden on the financial aid administrator by requiring that this be done for all co-op students. Second, if the financial aid officer chooses not to do a retroactive need analysis to determine what portion of the co-op earnings could be included as financial aid, none of the earnings can be considered to be student financial aid.

4. If the only Title IV aid the co-op student received in the base year was a Pell Grant and/or a GSL, and thus no award letter had been issued, it would still be possible for a retroactive need analysis to be done (at the financial aid administrator's option) as noted in item 3 above, to determine the portion of base year co-op earnings which could have been considered financial aid and thus do not need to be reported on the application.

APPENDIX G

PHONE NUMBERS AND P.O. BOXES

Application Processing Center
(319) 337-3738

Federal Student Aid Programs
P.O. Box _____
Iowa City, IA 52244

	P.O. Box
Federal Student Aid Application (English)	4150
Special Condition Forms (English)	4151
Federal Student Aid Applications (Spanish)	4155
Special Conditions Forms (Spanish)	4155
History Corrections Returned by Student	4152
Haven't Heards	4153
Duplicate Request and Address Changes	4154
Telephone Inquiry - Correspondence	4109

Request for Bulk Materials

Federal Student Aid Programs
Department CY 86
Pueblo, Colorado 81009

Request for National Disaster Area Asset Adjustment Instructions

U.S. Department of Education
Office of Student Financial Assistance
Division of Training and Dissemination
Information Section
Room 4661, ROB-3
400 Maryland Avenue, S.W.
Washington, D.C. 20202

Student Information Center

(301) 984-4070

APPENDIX H

MOST FREQUENTLY NEEDED INFORMATION NUMBERS FOR OFFICE OF STUDENT FINANCIAL ASSISTANCE

ED INFORMATION SECTION (202) 472-5080

- o Questions from schools on computing awards
- o Complaints or questions from students or parents
- o Request for Handbooks and other program materials
- o Correction Applications

DISBURSEMENT UNIT (202) 245-1271

Prior to 1984-85

- o Progress Report questions
- o Letters of Authorization questions
- o Questions from schools regarding problems they have receiving their funds
- o Questions on the Validation Rosters (not to be confused with validation procedures)

1984-85 to Present

- o Statement of Accounts
- o Institutional Payment Summary
- o End of Year Student List
- o Institutional Letter of Certification

POLICY SECTIONS

- o Pell Grant (202) 472-4300
- o Guaranteed Student Loan (202) 245-2475
- o Campus-Based (202) 245-9717

APPLICATION PROCESSING UNIT (202) 472-6537

- o Requests for copies of former year records
- o Complaints on "too late for processing"

ADS UNIT (202) 472-2685

- o All non-validation ADS questions

SYSTEM SUPPORT SECTION (202) 447-9001

- o Payment questions
- o Questions on eligibility used to date

TRAINING BRANCH (202) 472-3330

- o Comments or questions from schools regarding training workshops

VALIDATION

Questions on:

- o Validation policies and procedures (202) 472-6200

- o Institutional referrals procedures (202) 245-2724
- o Status of institutional referrals cases
- o 60-day procedures
- o ADS validation cases prior to 1985-86
- o Pell Grant collections cases
- o Reporting of possible fraud and abuse
- o Status of possible fraud and abuse cases

When calling you should identify the type of questions you have, according to the above outline, so that your call can be answered by the appropriate individual responsible for your area of interest.

APPENDIX I

GUIDE TO REQUESTING TAX RETURN INFORMATION FROM THE INTERNAL REVENUE SERVICE

IRS can provide tax return information in two ways: 1) a listing of information from the tax return, or 2) a photocopy of the tax return.

The listing is acceptable for validation purposes as long as the data appear to have come from the IRS. IRS can provide the listing within four weeks, but it may take up to ten weeks to obtain a photocopy of the tax return.

Taxpayers requesting a copy of their income tax return or return information are required to pay in advance. The charge for a photocopy of a tax return is $5.00 and the charge for a listing is $2.50. Payment must be made by money order or by check. To make the request, complete IRS Form 4506 (Revised 10/83), "Request for Copy of Tax Form," (example on page 116) and mail it to the IRS Service Center serving the requester's state. (Note: IRS plans to update Form 4506 during 1985 and the cost for obtaining the IRS information may increase.) Service Center addresses are listed on page 101 of this Handbook and and on the reverse of Form 4506. A supply of these forms can also be obtained from the IRS Service Center serving the requester's state.

You may wish to accept the listing of the tax return information in lieu of the photocopy because the listing provides the information necessary to verify the items, is less costly to the students, and can be obtained in less time than the photocopy.

GENERAL INFORMATION

- It takes about ten weeks from the filing date for a record to appear in IRS files, so the taxpayer should wait at least that long to submit a request for a listing or a photocopy. If there is a delay in processing the return, e.g., if W-2's were not attached, it will take longer than ten weeks for the record to become available.

- IRS acknowledges all requests for tax information within 21 days and photocopies within 35 days. If there is a delay in obtaining the information, IRS notifies the taxpayer of the delay within 60 days of receipt of the request. If the taxpayer has requested a photocopy and the IRS is unable to obtain a photocopy within 90 days, it will send instead a listing of tax return information.

- The taxpayer must request his/her records from the Service Center where the tax return was filed (taxpayer's state of residence at the time the return was filed). If a taxpayer requests his/her records from the wrong Service Center, the Service Center will not necessarily be aware that the records are at another Service Center, and the taxpayer may receive notice that IRS has no record of a tax return for him/her.

LISTING OF TAX RETURN INFORMATION

Most IRS Service Centers will copy the information below from their records. Some Service Centers may produce a computer transcript with the same information.

1. Marital Status Code:

   1-single
   2-married filing jointly
   3-married filing separately
   4-unmarried head of household
   5-widow(er)
   6-married filing separately claiming spouse as dependent.

2. Total Tax - 1040, line 56; 1040A, line 23; 1040EZ, line 9.

3. Adjusted Gross Income - as per the tax return or as adjusted by IRS if the taxpayer had a math error.

4. Taxable Income - a "middle of the tax bracket" figure is shown rather than the exact amount on the return. This could result in a difference of up to $25 from the amount on the return.

5. Self-employment tax, if reported, (1040, line 51).

6. Number of exemptions.

The total tax shown will not always be the same figure as the one that should be reported on the SAR. Tax for Pell Grant purposes is listed on line 50 of the 1040 or line 23 of the 1040A or line 9 of the 1040EZ.

The tax figure on a listing from a 1040A may include advanced earned income credit as well as the tax that should be reported on the SAR.

The tax figure from a 1040 may include several types of tax that should not be reported on the SAR: advanced earned income credit, self-employment tax, alternative minimum tax, tax from recapture of investment credit, Social Security tax on tip income not reported to employer, uncollected employee Social Security tax and RRTA, tax on tips, credits for Federal tax on gasoline and special fuels and tax on an IRA.

The tax figures from a 1040EZ are correct as shown on the listing.

If self-employment tax is present, it will be included in the listing. To arrive at the proper tax, subtract the self-employment tax from the total tax.

If you think the taxpayer had advanced earned income credit, request from the student or parent a copy of the W-2. To calculate the correct tax for Pell Grant purposes, subtract the advanced earned income credit from the total tax. If the taxpayer did not retain the W-2, have him/her request a copy of the tax

return from IRS. To qualify for the earned income credit, the taxpayer must file as a qualifying widow(er) or head of household or file a joint return, have earned income of less than $10,000, and provide a principal residence for at least one dependent child.

If you have reason to believe that any other types of tax are included in the total tax amount, have the taxpayer request a copy of the 1040 itself.

Itemized deductions are not included in the listing, but you can calculate them using the following formula:

Itemized deductions = adjusted gross income - (exemptions x 1000) - taxable income

To obtain a listing, the student or parent must complete Form 4506 (Revised 10/83), Request for Copy of Tax Form, and check the second box in Item 10.

NOTIFICATION OF NO RECORD OF FILING

If you have reason to question the student's or parent's assertion that no tax return was filed, have the student or parent request a listing of tax return information from IRS. If no tax return is on file, the taxpayer will receive a no record of filing notice. If a tax filer makes this request before the return is fully processed, or contacts the wrong Service Center, (s)he may receive a notice that there is no record of filing even though (s)he is a tax filer. The student or parent must submit the prepaid fee of $2.50 with the Form 4506.

PHOTOCOPY OF TAX RETURN

Have the taxpayer complete IRS Form 4506 and check the first box in Item 10.

COMPLETING FORM 4506 (Revised)

For privacy reasons, IRS will not send the listing to a third party unless that individual's name appears on the request. If you wish to have the listing mailed directly to the financial aid office, have the student list your name and the financial aid office address under Item 3.

The name of the student is written in Item 4 if it is different than the name shown in Item 1. For example, Item 1 may be the parents of a student applying for financial aid. Show the student's name in Item 4.

If mailed to the taxpayer, make sure that the current address of the taxpayer is on the request so that the document does not get lost in the mail. If the person requesting the tax return information is not the taxpayer, (s)he must include documentation, such as a copy of a power of attorney, that proves authorization for release of the information. If the taxpayer is deceased, the requester must provide sufficient evidence to establish that (s)he is authorized to act for the estate of the taxpayer.

A separate Form 4506 must be submitted to each Service Center from which a request is made. Additionally, a separate Form 4506 must be used if requests are made for both a listing and a copy. IRS must receive the request within 60 days of the signature date. The request must be mailed to the attention of the Photocopy Function of the Service Center where the return was filed (the Service Center for the taxpayer's State of residence at the time the return was filed). A list of Service Centers follows:

SERVICE CENTER ADDRESSES

If tax payer lived in	Mail to the following IRS Center
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	P.O. Box 888 Holtsville, NY 11742
New York (all other counties) Conneticut, Maine, Massachusetts New Hampshire, Rhode Island, Vermont	P.O. Box 3006 Woburn, MA 01888
Alabama, Florida, Georgia Mississippi, South Carolina	P.O. Box 47412 Doraville, GA 30362
Michigan, Ohio	P.O. Box 145500 Cincinnati, OH 45214
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	P.O. Box 2943 Austin, TX 78769
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	1160 W. 1200 South Street Ogden, UT 84201
Illinois, Iowa, Missouri, Wisconsin	P.O. Box 1040 Kansas City, MO 64141
California, Hawaii	5045 E Butler Avenue Fresno, CA 93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West Virginia	P.O. Box 2501 Memphis, TN 38101
Delaware, District of Columbia, Maryland, Pennsylvania, outside the United States	P.O. Box 920 Bensalem, PA 19020

APPENDIX J

TAX FILING STATUS REQUIREMENTS AND THE SAR

On the 1985-86 application, students are asked to tell us if the reported 1984 U.S. income tax figures are from a completed return or are "estimated" because either the tax return has not yet been filed, or no tax return will be filed. Although we collect this data, we do not always calculate the SAI based on the answers given. Sometimes we assume a tax filing status different from the application answers because of inconsistencies in the reporting of the income information and the responses. In these cases one of the following comments will appear on the SAR:

- We assumed that your parent(s) will file a 1984 U.S. Income Tax Return. If this is not correct, contact your Counselor or Financial Aid Administrator for assistance.

- We assumed that your parent(s) did or will file a 1984 U.S. Income Tax Return. If no tax return was or will be filed, correct items 26, 27, 28, 29, 30, and 31. Contact your Counselor or Financial Aid Administrator for assistance.

- Based on your answer to item 27, we assumed that your parent(s) did not and will not file a 1984 U.S. Income Tax Return(s). If this is not correct, review items 26, 27, 28, 29, 30, and 31. Information from the 1984 tax return should appear there if a tax return was or will be filed.

- We assumed that your parent(s) will not file a 1985 U.S. Income Tax Return. If this is not correct, review item 27. Estimated information from the 1985 tax return should appear there if a tax return will be filed.

- We assumed that you did or will file a 1984 U.S. Income Tax Return. If no tax return was or will be filed, correct items 26, 27, 28, 29, and 31. Contact your Counselor or Financial Aid Administrator for assistance.

- We assumed that you will file a 1985 U.S. Income Tax Return. If this is not correct, contact your Counselor or Financial Aid Administrator for assistance.

- Based on your answer to item 27, we assumed that you did not and will not file a 1984 U.S. Income Tax Return. If this is not correct, review items 26, 27, 28, 29, and 31. Information from the 1984 tax return must appear there if a tax return is filed.

- We assumed that you will not file a 1985 U.S. Income Tax Return. If this is not correct, review item 27. Estimated information from the 1985 tax return must appear there if a tax return will be filed.

In reviewing an SAR, you may sometimes find that the SAI calculated by the Pell Grant processor is much less than you expected but the amounts shown in Item 32 and Item 33 exactly match the documentation while Item 27 shows 0 or a blank. Similarly, you may find that the amount in Item 27 matched the documentation, but because of errors in Item 32 and Item 33 you are uncertain whether the student must obtain a reprocessed SAR under Tolerance Option II. Such problems may arise because the determination of the student's tax filing status made during the course of processing is incorrect or unknown to you.

In order to provide you with better assistance in determining whether an applicant has been properly computed as a tax filer or a non-tax filer, we have listed below the criteria used in making this determination from the information reported by a student. Since we derive the EFI used in calculating the SAI from Item 27 for tax filers or from the sum of the amounts in Item 32 and Item 33 for non-tax filers, the results of this determination may drastically affect a student's eligibility.

To be computed as a tax filer, the SAR must meet <u>one</u> of the two following conditions:

1. Item 27 shows a positive, negative, or zero amount and Item 25 says "Completed," "Estimated," or is blank.

   A student whose data fail to meet one of these conditions is regarded as a non-tax filer for that transaction only. Corrections that result in the student's meeting one of these conditions yield the opposite determination for the next transaction.

OR

2. Special Condition Application and Item 27 is non-blank and non-zero.

APPENDIX K

IRS FORM 4972 DISTRIBUTIONS

The IRS Form 4972 can show both taxable and non-taxable income amounts, depending on the taxpayer's circumstances.

Some capital gains taxed under the special 10-year averaging method are included on line 2 of Form 4972 and are treated in the same manner as ordinary income from a qualifying retirement plan. No entry should appear for them on Schedule D or line 13 of the 1984 IRS Form 1040 and no nontaxable portion needs reporting.

A taxpayer may also report capital gains from sources other than qualifying retirement plans on line 1 of IRS Form 4972 and carry over these amounts to Schedule D or the appropriate line on IRS Form 1040. These capital gains have a nontaxable portion that should be determined from Schedule D or Form 1040 as untaxed income as instructed in the Validation Handbook. If the applicant claims a death benefit exclusion on the Form 4972, then this income should be added to the SAR line 36 along with the amount of "X" as calculated according to the formula.

The following illustrates the procedure you should follow depending on entries made on IRS Form 4972:

- If line 1 is blank and line 4 is blank, then add line 2 to AGI on SAR line 27
- If line 1 has an entry and line 4 is blank, then add line 2 to AGI on SAR line 27
- If line 1 is blank and line 4 has an entry, then add line 4 to Other Untaxed Income on SAR line 36 and add line 5 to AGI on SAR line 27
- If line 1 has an entry and line 4 has an entry, then add line 2 to AGI on SAR line 27 and calculate "X" using this formula:

$$X = \text{line 1} - \frac{(\text{line 1} \times \text{line 5})}{\text{line 3}}$$

Add the amount calculated from "X" to Other Untaxed Income SAR line 36

APPENDIX L

EARNED INCOME CREDIT, ADVANCED EARNED INCOME CREDIT, AND CREDIT FOR FEDERAL TAX ON GASOLINE AND SPECIAL FUELS

A school is not required to verify earned income credit, advanced earned income credit, or credit for Federal tax on gasoline and special fuels. However, if in the course of validating, the school becomes aware of the existence of a negative tax for either earned income or advance earned income credit the amount must be reported in SAR Item 36; or if the school becomes aware of the credit for Federal tax on gasoline and special fuels, (line 62 of the 1040) the full amount of this credit must be reported in SAR Item 36.

To determine whether a portion of the earned income credit must be reported on the SAR, use the following formula:

1040: Line 59 minus Line 50

If this amount is positive, it must be reported in Item 36. Otherwise it does not have to be reported.

1040A: Line 24b minus Line 23

If this amount is positive, it must be reported in Item 36. Otherwise it does not have to be reported.

To determine whether a portion of the advanced earned income credit must be reported on the SAR, use the following formula:

1040:

Subtract the amount of advanced earned income included on line 56 from the total of line 56. Then subtract the remaining amount on line 56 from line 59. If this amount is positive it must be reported in Item 36.

1040A:

Subtract the amount of advanced earned income included in line 23 from the total of line 23. Then subtract the remaining amount on line 23 from line 24B. If this amount is positive it must be reported in Item 36.

APPENDIX M

REFERENCES FOR 1984 PUERTO RICO INCOME TAX RETURN

Below is a listing of data elements on the 1985-86 SAR with the corresponding place on the 1984 Puerto Rico Income Tax Return.

Data Elements	1984 Puerto Rico Tax Return
Exemptions Claimed (Item 26)	*Schedule 3 The total of all individuals listed in Items 8 and 9 plus the dependent that would have entitled the filer to claim as "head of household," if applicable. The total of Items 8 and 9 of Schedule 3 are reported in Item 9D. Schedule 9 provides a listing of the names, ages and relationships of those persons claimed in Item 9D excluding the principal tax filer.
Income from Income Tax From (Item 27)	Schedule 2, Item 5 plus any amount reported on a U.S. income tax return.
U.S. Income Tax Paid (Item 28)	Schedule 4, Item 17 plus any amount reported on a U.S. income tax return.
*Married Couple Deduction (Item 29)	Schedule 3, Item 7M
Itemized Deductions (Item 31)	Schedule 3, Sum of Items 7A, 7C, 7F, 7G, 7H, 7I, and 7K
Income Earned from Work by Father/Student (Item 32)	
For all male independent students, unmarried female independent students and fathers of dependent students	Schedule 2, Sum of Item (Total in Column C), 4E, 4F, 4G, 4H, and 4J MINUS Schedule 1, Item E
For married female independent students	Schedule 1, Item E

*The Spanish word for "schedule" is "encasillado."

Income Earned from Work by Mother/ Spouse (Item 33)	
For wives of independent students and married mothers of dependent students	Schedule 1, Item E
For husbands of independent students and unmarried mothers of dependent students	Schedule 2, Sum of Items 1 Total in Column C), 4E, 4F, 4G, 4H, and 4J MINUS Schedule 1, Item E
Other Untaxed Income (Item 36)	
Income Exclusion	Schedule 6 If line 8 exceeds line 7, the amount on line 7 should be reported in Item 36 If line 8 is less than line 7, you may, at your option, compute the amount of income to be reported in Item 36 by using the amounts reported in lines 10, 11, and 12
Interest Exclusion	Schedule 5--either line (01) or line (02), whichever amount is less
Medical/Dental Expenses (Item 37)	Schedule 3, Item 70, (Expenses for orthopedic equipment for handicapped) Schedule 8, Item 1, Column A, doubled

*The 1984 Puerto Rico Income Tax Return collects the "deduction for a married couple when both work" on Schedule 3, line M, but does not exclude it as an adjustment from the adjusted gross income (Schedule 2, Item 5). Since the U.S. Income Tax Return does exclude the deduction from adjusted gross income, the Pell Grant formula adds the deduction back in as untaxed income. However, in the case of students reporting information from Puerto Rican Tax Returns, the Pell Grant formula will count the deduction twice unless the students report "0" for the married couple deduction. If a student inadvertently fills in the amount of the deduction, (s)he should correct his or her SAR by changing the figure in Item 29 of the SAR to "0" and having the SAR reprocessed, when applicable.

If you would like a copy of the English version of the Puerto Rican tax return, call (202) 472-6200.

APPENDIX N

1984 UNTAXED INCOME AND BENEFITS STATEMENT

NAME _____

SOCIAL SECURITY NUMBER _____

FILL IN THE AMOUNTS RECEIVED IN 1984:

o Child support received	$ _____
o Welfare benefits (except AFDC or ADC)	+ _____
o Untaxed portions of unemployment compensation	+ _____
o Untaxed portions of Railroad Retirement Benefits	+ _____
o Workman's Compensation	+ _____
o Job Training Partnership Act non-educational benefits	+ _____
o Veterans benefit's except educational benefits; include Death Pension, Dependency and Indemnity Compensation (DIC) and VA Vocational Rehabilitation Program benefits	+ _____
o Interest on tax-free bonds	+ _____
o IRS dividend exclusion from IRS Form 1040-line 9b or 1040A-line 8	+ _____
o Untaxed portions of pensions	+ _____
o Untaxed portions of capital gains	+ _____
o Dividend reinvestment exclusion from Form 1040, Schedule B, line 8	+ _____
o Foreign income exclusion from IRS Form 2555-line 39	+ _____
o Housing, food, and other living allowances for military, clergy, and others (include cash payment and cash value of benefits)	+ _____
o Any other untaxed income and benefits such as Black Lung Benefits, excess earned income credit, etc.	+ _____
TOTAL	= $_____

Don't include:

- Social Security
- Money from student financial aid programs (educational loans, work-study earnings, grants, or scholarships)
- Veterans benefits for education (GI Bill, Dependents Educational Assistance Program, or VA Contributory Benefits)
- Gifts and support, other than money, received from friends or relatives
- Food stamps
- Tax-sheltered or deferred annuities or "rollover" pensions

Signatures

APPLICANT _____ FATHER _____

DATE _____ DATE _____

SPOUSE _____ MOTHER _____

DATE _____ DATE _____

APPENDIX O

DEPENDENT STUDENT (AND SPOUSE) 1984 UNTAXED INCOME AND BENEFITS STATEMENT

NAME _____

SOCIAL SECURITY NUMBER _____

FILL IN THE AMOUNTS YOU AND YOUR SPOUSE RECEIVED IN 1984:

o Deduction for a married couple when both work	$ _____
o Untaxed portions of Social Security benefits except educational benefits (include Supplemental Security Income or disability benefits, etc.)	+ _____
o Child support received for the student's children	+ _____
o Aid to Families with Dependent Children (AFDC or ADC)	+ _____
o Welfare benefits	+ _____
o Untaxed portions of unemployment compensation	+ _____
o Untaxed portions of Railroad Retirement Benefits	+ _____
o Workman's Compensation	+ _____
o Veteran's benefits except educational benefits (Include Death Pension, Dependency and Indemnity Compensation (DIC), and VA Vocational Rehabilitation Program benefits.)	+ _____
o Job Training Partnership Act non-educational benefits	+ _____
o Any other untaxed income and benefits	+ _____
TOTAL =	$ _____

Don't include:

- Social Security benefits your parents received for you
- Social Security educational benefits (benefits you get only because you are a college student)
- Money from student financial aid programs (educational loans, work-study earnings, grants, or scholarships)

Signatures

APPLICANT _____

DATE _____

SPOUSE _____

DATE _____

1984 Tax Rate Schedules

Your zero bracket amount has been built into these Tax Rate Schedules.

Caution: You must use the Tax Table instead of these Tax Rate Schedules if your taxable income is less than $50,000 unless you use **Schedule G, Income Averaging,** to figure your tax. In that case, even if your taxable income is less than $50,000, use the rate schedules on this page to figure your tax.

Schedule X

Single Taxpayers

Use this Schedule if you checked **Filing Status Box 1** on Form 1040—

If the amount on Form 1040, line 37 is: Over—	But not over—	Enter on Form 1040, line 38	of the amount over—
$0	$2,300	—0—	
2,300	3,400	.....11%	$2,300
3,400	4,400	$121 + 12%	3,400
4,400	6,500	241 + 14%	4,400
6,500	8,500	535 + 15%	6,500
8,500	10,800	835 + 16%	8,500
10,800	12,900	1,203 + 18%	10,800
12,900	15,000	1,581 + 20%	12,900
15,000	18,200	2,001 + 23%	15,000
18,200	23,500	2,737 + 26%	18,200
23,500	28,800	4,115 + 30%	23,500
28,800	34,100	5,705 + 34%	28,800
34,100	41,500	7,507 + 38%	34,100
41,500	55,300	10,319 + 42%	41,500
55,300	81,800	16,115 + 48%	55,300
81,800	.....	28,835 + 50%	81,800

Schedule Z

Unmarried Heads of Household

(including certain married persons who live apart—see page 5 of the instructions)

Use this schedule if you checked **Filing Status Box 4** on Form 1040—

If the amount on Form 1040, line 37 is: Over—	But not over—	Enter on Form 1040, line 38	of the amount over—
$0	$2,300	—0—	
2,300	4,400	.....11%	$2,300
4,400	6,500	$231 + 12%	4,400
6,500	8,700	483 + 14%	6,500
8,700	11,800	791 + 17%	8,700
11,800	15,000	1,318 + 18%	11,800
15,000	18,200	1,894 + 20%	15,000
18,200	23,500	2,534 + 24%	18,200
23,500	28,800	3,806 + 28%	23,500
28,800	34,100	5,290 + 32%	28,800
34,100	44,700	6,986 + 35%	34,100
44,700	60,600	10,696 + 42%	44,700
60,600	81,800	17,374 + 45%	60,600
81,800	108,300	26,914 + 48%	81,800
108,300	.....	39,634 + 50%	108,300

Schedule Y

Married Taxpayers and Qualifying Widows and Widowers

Married Filing Joint Returns and Qualifying Widows and Widowers

Use this schedule if you checked **Filing Status Box 2 or 5** on Form 1040—

If the amount on Form 1040, line 37 is: Over—	But not over—	Enter on Form 1040, line 38	of the amount over—
$0	$3,400	—0—	
3,400	5,500	.....11%	$3,400
5,500	7,600	$231 + 12%	5,500
7,600	11,900	483 + 14%	7,600
11,900	16,000	1,085 + 16%	11,900
16,000	20,200	1,741 + 18%	16,000
20,200	24,600	2,497 + 22%	20,200
24,600	29,900	3,465 + 25%	24,600
29,900	35,200	4,790 + 28%	29,900
35,200	45,800	6,274 + 33%	35,200
45,800	60,000	9,772 + 38%	45,800
60,000	85,600	15,168 + 42%	60,000
85,600	109,400	25,920 + 45%	85,600
109,400	162,400	36,630 + 49%	109,400
162,400	.....	62,600 + 50%	162,400

Married Filing Separate Returns

Use this schedule if you checked **Filing Status Box 3** on Form 1040—

If the amount on Form 1040, line 37 is: Over—	But not over—	Enter on Form 1040, line 38	of the amount over—
$0	$1,700	—0—	
1,700	2,750	.....11%	$1,700
2,750	3,800	$115.50 + 12%	2,750
3,800	5,950	241.50 + 14%	3,800
5,950	8,000	542.50 + 16%	5,950
8,000	10,100	870.50 + 18%	8,000
10,100	12,300	1,248.50 + 22%	10,100
12,300	14,950	1,732.50 + 25%	12,300
14,950	17,600	2,395.00 + 28%	14,950
17,600	22,900	3,137.00 + 33%	17,600
22,900	30,000	4,886.00 + 38%	22,900
30,000	42,800	7,584.00 + 42%	30,000
42,800	54,700	12,960.00 + 45%	42,800
54,700	81,200	18,315.00 + 49%	54,700
81,200	.....	31,300.00 + 50%	81,200

FORM SSA-1099 — SOCIAL SECURITY BENEFIT STATEMENT

1984

- PART OF YOUR SOCIAL SECURITY BENEFITS AS SHOWN IN BOX 5 MAY BE TAXABLE INCOME FOR 1984
- USE THE FIGURE FROM BOX 5 OF THIS STATEMENT AND THE ENCLOSED NOTICE 703 FROM IRS TO SEE IF ANY PART OF YOUR BENEFITS MAY BE TAXABLE ON YOUR FEDERAL INCOME TAX RETURN
- ALSO SEE GENERAL INFORMATION TO THE RIGHT.

Box 1 Name	Box 2 Social Security Number

Box 3 Benefits for 1984	Box 4 Benefits Repaid to SSA in 1984	Box 5 Net Benefits (Box 3 minus Box 4) for 1984
$	$	$

DESCRIPTION OF AMOUNT IN BOX 3

Amounts paid by check or direct deposit
Add:
Medicare premiums withheld
Workers compensation offset
Fees paid to an attorney or other legal obligation.
Amounts withheld to recover an overpayment
Amounts paid to another family member
Amounts withheld to recover SSI payments

Total Additions _____

Subtract
Payments due before 1984
Amounts for other family members paid to you
Lump sum death payment
Excess Medicare premiums

Total Subtractions _____

Benefits for 1984 $ _____

DESCRIPTION OF AMOUNT IN BOX 4

Amounts of any of your Social Security checks that were returned to SSA
Add:
Amounts withheld to recover an overpayment
Amounts paid to SSA in cash, or by personal check or money order, etc. excluding Medicare premiums

Benefits Repaid to SSA in 1984 $ _____

Box 6. Address

Box 7. Claim Number
(Use this number if you need to contact SSA.)

APPENDIX R

Quality in the Pell Grant Delivery System (Pell Grant QC III)

TABLE 9-4

STUDENT ERROR BY APPLICATION ITEMS

Application Item	Mean Net Award Error Error Per Recipient ($)	Mean Net Error Per Recipient With Error ($)	Net Program-Wide Estimate ($ Millions)	Rank
Adjusted Gross Income/Dependency Status[1]	--	--	80	-
Adjusted Gross Income	6.70	164.70	16	7
Dependency Status[2]	25.30	465.00	64	1
Other Nontaxable Income	19.20	191.30	46	2
Household Size	14.10	139.80	34	3
Number in Postsecondary Education	9.60	162.60	23	4
Home Equity	7.70	113.10	18	5
Dependent Student's (and Spouse's) Assets	7.10	39.20	17	6
Dependent Student's (and Spouse's) Income	4.90	330.80	12	8
U.S. Taxes Paid	1.00	29.00	2	9
Spouse's/Mother's Earned Income	.90	91.40	2	10
Real Estate/Investment Equity	.70	255.40	2	11
AFDC/ADC	.70	402.80	2	12
VA Educational Benefits	.40	69.10	1	13
Marital Status (Parent)	.40	132.00	1	14
Business/Farm Equity	.30	473.80	1	15
Cash/Savings/Checking	.30	35.90	1	16
Medical/Dental Expenses	.10	11.80	0	17
Applicant's/Father's Earned Income	-.10	-5.40	-0	18
Elementary/Secondary Tuition	-.30	-44.00	-1	19
Marital Status (Student)	-.30	-903.00	-1	20
Social Security Benefits (Parent)	-1.20	-82.60	-3	21
Social Security Educational Benefits	-7.10	-274.20	-17	22

1 In 1980 - 1981 Adjusted Gross Income/Dependency Status Error were presented together as Adjusted Gross Income (AGI) Error with an explanatory footnote. The rationale for this was that Dependency Status Error represented use of the incorrect AGI and other application values. In the interest of a greater clarity, we are presenting AGI Error and Dependency Status Error separately, since they are, in fact, errors that represent different problems. For purposes of comparison, we have shown the combined AGI/Dependency Status Error for 1982 -1983.

2 Dependency status error is computed in the same way as overall student error (an approach which is more accurate but cannot be used with individual application items). The figure reported here treats dependency status switchers with SEP/FAT/Invalid SAR error as ineligible. If they were considered eligible, dependency status switcher error would be $70 million.

APPENDIX S

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

February 1985

P-85-4

Dear Colleague:

A number of changes, additions, and deletions have been made to the 1985-86 Application for Federal Student Aid (AFSA) and 1985-86 Special Condition Application for Federal Student Aid. Although these changes are, for the most part, relatively minor, we have nonetheless received a number of questions regarding the form alterations. Therefore, we thought it advisable to discuss these changes with you.

APPLICATION FOR FEDERAL STUDENT AID

Additions

Two data elements have been added to the 1985-86 application which were not on the 1984-85 form. They are as follows:

1. Data element #11 -- "Will the student's spouse be attending college at least half-time during 1985-86?" This element is necessary to allow students to continue to use the Application for Federal Student Aid in applying for other title IV aid. During 1985-86, Uniform Methodology systems will calculate a different minimum contribution from taxable income if the spouse is also a student.

2. Data element #26a -- "Deduction for a married couple when both work (Form 1040-line 29 or 1040A-line 12)." In 1984-85, the deduction for a married couple when both work was collected as an element on the worksheet for item #29c. Information both from within the Department and from the financial aid community indicates that parents and students did not routinely report this source of income on the worksheet. For the 1983-84 year, approximately 80 percent of the applicants were tax filers; yet, almost 85 percent of the applicants left question 29c blank or reported zero. Based on this information, it was decided to include this question as an item on the application where it would be less likely to be overlooked.

Deletions

Three data elements which were on the 1984-85 application form have been deleted for 1985-86. They are as follows:

1. Data element #11 -- "Is the student a veteran of the U.S. Armed Forces?" Since this element is not used in either the calculation for eligibility for title IV aid or in editing a student's veterans benefits, we have deleted it from the form.

We have made three types of changes to the instructions which accompany the application:

1. Those obvious changes that were necessary because of changes which were made to the application;

2. Editorial changes resulting from dialogue with user groups and the aid community; and

3. Changes resulting from new legislation.

The first type of change is self-explanatory. The second category of changes includes instructions that were considered unclear or subject to misinterpretation, such as the restatement of the instruction on page 9 informing the student to include 1984 income for a spouse, even if they were not married in 1984. This last item has always been a policy requirement, but it was the subject of many inquiries from students. Similarly a "Note" was added above the "Warning" in the introductory remarks to highlight the Privacy Act. It was felt that it was important to emphasize that all items need not be filled out for every type of aid. Finally, the third kind of change is also largely self-explanatory and includes changes necessitated by revisions to existing laws as well as the changes made necessary by the addition of new programs. As an example, certain portions of an individual's Social Security Benefits and Railroad Retirement Benefits are now taxable and are, therefore, included in Adjusted Gross Income. For title IV purposes then, the total benefits from these programs must be divided and collected partially as taxable income and partially as untaxed income. The Comprehensive Employment Training Act (CETA) Program has been essentially replaced by a new program, the Job Training Partnership Act (JTPA). This change is also reflected in the instructions.

<u>Clarification of data elements</u>

1. Data element #12 - The instructions specify that a student must answer "yes" even if the parents are paid room and board. This <u>does</u> include market value rent. During previous award cycles, the Validation Handbook has made certain exceptions for students who lived with their parents, but who had separate facilities and paid their parents market-value rent. However, for the 1985-86 application year, we are revising the Validation Handbook to eliminate this exception. Thus, students must answer "yes" to this question if they live in the principal residence of the parents, <u>even if they pay rent</u>.

2. Worksheet for 29c - VA Vocational Rehabilitation Program benefits: If the recipient is receiving benefits that are intended for his or her tuition and fees or other educational costs at institutions of higher education, the benefits should be considered financial aid rather than untaxed income.

SPECIAL CONDITION APPLICATION FOR FEDERAL STUDENT AID

All of the changes mentioned above also apply to the Special Condition form except for the treatment of the married couple deduction. On the Special Condition form, the married couple deduction is listed as a worksheet item for untaxed income.

If you have any questions please contact your Regional Office.

Sincerely,

Edward M. Elmendorf
Assistant Secretary for
Postsecondary Education

Daniel R. Lau
Director, Student
Financial Assistance
Programs

Form **4506** (Rev. October 1983)

Department of the Treasury – Internal Revenue Service

Request for Copy of Tax Form or Individual Income Tax Account Information

OMB Clearance Number 1545-0429

Important: Before completing this form, please read all instructions on the back.

1. Name of taxpayer *(s)* as shown on tax form

2. Current name and address

3. If information is to be mailed to someone else, show the third party's name and address

4. If name in third party's records differs from item 1 above, show here *(See instructions for item 3.)*

5. Social security or employer identification number as shown on tax form

6. Spouse's social security number as shown on tax form

7. Tax form number *(Form 1041, 941, etc.)*

8. Tax period *(s)* *(No more than 4 per request)*

9. Amount due *(Make check payable to IRS.)*

$ _____

Note: Full payment must accompany your request

10. **Describe what you want** ▶

(Check only one box.)

$5.00 each ☐ Copy of tax return and all attachments *(including Forms W-2)*

Note: If you need these copies *certified* for court or administrative proceedings, check here ☐ also.

$2.50 each ☐ Tax account information only *(Do not use for income averaging.)*

$2.50 each ☐ Form 1040A or Form 1040EZ verification only

Privacy Act and Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need the information to gain access to your return in our files and properly respond to your request. If you do not furnish the information, we may not be able to fill your request.

Please sign here ▶ Signature _____ Date _____

Telephone number of requester ( )

Form **4506** (Rev. 10-83

Instructions

Use this form to request a copy of a tax return or individual income tax account information.

If you are not the taxpayer shown in item 1, you must send a copy of your authorization to receive the information. This will generally be a power of attorney, tax information authorization, or evidence of entitlement *(for Title 11 Bankruptcy or Receivership Proceeding)*. If the taxpayer is deceased, you must send enough evidence to establish that you are authorized to act for the taxpayer's estate.

Tax returns and return information about joint returns may be disclosed to either the husband or the wife. Only one signature is required. If your name has changed, sign Form 4506 exactly as your name appeared on the return and also with your current name.

Corporations, partnerships, estates, and trusts.—For rules on who may obtain tax information on the entity, see Internal Revenue Code section 6103.

Please allow at least *45 days* for delivery when requesting a copy of a return, and at least *30 days* when requesting return information or a verification letter. *(You must allow at least 6 weeks processing time after a return is filed before requesting a copy or other information.)*

Item 3.—If you have named someone **else** to receive the information *(such as a CPA, scholarship board, or mortgage issuer)*, you must include the name of an individual with the address in item 3. Also, be sure and write the name of the client, student, or applicant in item 4 if it is different than the name shown in item 1. For example, item 1 may be the parents of a student applying for financial aid. Show the student's name in item 4 so the scholarship board will know what file to associate the return information with. If we cannot find a record of your return, we will notify the third party directly that we cannot fill the request.

Item 5.—For individuals, the social security number is written 000-00-0000. For businesses and certain others, the employer identification number is written 00-0000000. Please separate the nine digits as shown, to distinguish the type of number being reported.

Item 8.—Enter the *year(s)* of the tax form you are requesting. For fiscal-year filers, enter the date the period ended. If you need more than four different periods, use additional request forms. Returns which were filed six or more years ago may not be available for making copies. However, tax account information is generally still available for these periods.

Item 9.—Use the following table to figure how much money you must send with your request:

Type of Request	Cost for each period requested
Copy of tax return	$5.00
Tax account information	2.50
Form 1040A/1040EZ verification	2.50

Example: You wish to figure your 1983 tax using the income averaging method, but you do not have a copy of your 1980 or 1981 returns. Check the first box in item 10 because you need a copy of the returns. Your cost will be $10.00 *($5.00 x 2)*.

Write your social security number or Federal employer identification number and "Form 4506 Request" on your check. If we cannot fill your request, we will refund your money.

Item 10.—In addition to a copy of a return, we can provide two other types of information: a listing of certain tax account information, or a letter of verification.

Tax account information only.—Students applying for financial aid may be required to give the college a copy of their tax return. The school may, however, permit you to use tax return information provided by the IRS instead. If so, the following information will be sent:

(a) Marital status,
(b) Tax shown on return,
(c) Adjusted gross income,
(d) Taxable income,
(e) Self-employment tax, and
(f) Number of exemptions.

Tax account information should not be used for income averaging, because the taxable income listed is computed from the tax table amount as a cross check, and may vary somewhat from the return amount. Get a copy of the return for the exact amount.

Form 1040A or 1040EZ verification only.—States issuing certain-qualified mortgage subsidy bonds are required to verify that the mortgage applicant did not own a home during the three previous years. As part of this verification, the mortgage issuer may want proof that you did not claim real estate interest or tax deductions on a residence. We will send a letter stating that Form 1040A or 1040EZ has been filed for a particular year or years. This will verify that no itemized deductions were claimed.

Where to file.—After you have completed Form 4506, send it to the service center where the tax return was filed. The addresses are listed below.

Note: You must use a separate Form 4506 for each service center from which you are requesting information. You must also use a separate form if you request both return information and return copies.

If you lived in	Please mail to the following Internal Revenue Service Center
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	P.O. Box 888 Holtsville, NY 11742
New York *(all other counties)*, Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	P.O. Box 3006 Woodburn, MA 01888
Alabama, Florida, Georgia, Mississippi, South Carolina	P.O. Box 47412 Doraville, GA 30362
Michigan, Ohio	P.O. Box 145500 Cincinnati, OH 45214
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	P.O. Box 2943 Austin, TX 78769
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	1160 W. 1200 South St. Ogden, UT 84201
Illinois, Iowa, Missouri, Wisconsin	P.O. Box 1040 Kansas City, MO 64141
California, Hawaii	5045 E. Butler Avenue Fresno, CA 93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West Virginia	P.O. Box 2501 Memphis, TN 38101
Delaware, District of Columbia, Maryland, Pennsylvania, outside the United States	P.O. Box 920 Bensalem, PA 19020

We asked for	You told us	The answer should be

D. 1984 Income & Expense Information of Parent (cont.)

40. Student/Spouse Taxable Income	$	40	$	00
41. Student/Spouse U.S. Tax Paid	$	41	$	00
42. Student/Spouse Untaxed Income	$	42	$	00
43. Student/Spouse Savings and Assets	$	43	$	00

E. Asset Information of Parent

44. Cash, Savings and Checking	$	44	$	00
45. Home Value	$	45	$	00
46. Home Debt	$	46	$	00
47. Other Real Estate/Investment Value	$	47	$	00
48. Other Real Estate/Investment Debt	$	48	$	00
49. Business/Farm Value	$	49	$	00
50. Business/Farm Debt	$	50	$	00

F. Student's (& Spouse's) Expected Income for 1985-1986

51. Student's Summer Income	$	51	$	00
52. Student's School Year Income	$	52	$	00
53. Spouse's Summer Income	$	53	$	00
54. Spouse's School Year Income	$	54	$	00
55. Monthly Vet Ben/Vocational Rehab	$	55	$	00
56. Vet Ben/Voc Rehab Months		56		
57. Monthly Contrib veteran's Benefits	$	57	$	00
58. Contrib veteran's Benefit Months		58		
59. Student/Spouse Other Untaxed Income	$	59	$	00

G. Other Information and Signatures

60. College Name		60	
61. College City and State		61	
62. Should Data be Released to State?		62	
63. Should Data be Released to College?		63	
64. Date Signed		64	
65. Signed By		65	
66. Student's Permanent Street Address		66	
67. Student's City		67	
68. Student's State		68	
69. Student's Zip Code		69	

IF YOU MADE NO CHANGES

- complete the STUDENT'S USE BOX on Part 1 of your SAR
- take all 3 parts of your SAR to your school

IF YOU MADE CHANGES

- sign the statement below
- send Part 2 to:

Pell Grant Processing Center
P.O. Box 4152
Iowa City, IA 52244

CERTIFICATION

All of the information on this SAR is true and complete to the best of my knowledge. If I am asked, I agree to give proof that my information is correct. This proof might include a copy of the 1984 U.S. Income Tax Form filed by me or my family. I understand that if I purposely give false or misleading information on this SAR, I may be subject to a $10,000 fine, a prison sentence, or both.

STUDENT _____ DATE _____

PARENT _____ DATE _____

If you need another copy, write to: Pell Grant Processing Center, P.O. Box 4154, Iowa City, IA 52244. Include your name and social security number.

School Use Only

SAI:

1. School Name _____
   City _____ State _____
2. Academic Calendar
   Credit Hour ☐ Quarter ☐ Semester ☐ Trimester ☐ Clock Hour ☐
3. Cost of Attendance
   Standard ☐ _____ (A-J) Individual ☐ $_____
4. Validation Status Code _____

TERM-BASED SCHOOLS ONLY

5a. Enrollment Status Full ☐ 1/2 ☐ 3/4 ☐ Other ☐

CLOCK-HOUR AND NON-STANDARD TERM CREDIT HOUR SCHOOLS ONLY

5b. No. of Hours expected to complete in all payment periods in this award year _____

5c. No. of Hours in academic year (for program) _____

6. Expected Disbursement $_____
7. Months of Subsequent Payments Jul ☐ Aug ☐ Sep ☐ Oct ☐ Nov ☐ Dec ☐ Jan ☐ Feb ☐ Mar ☐ Apr ☐ May ☐ Jun ☐
8. Date Enrolled Month_____ Day_____ Year_____